Knysna Municipality

Draft Medium Term
Revenue & Expenditure
Framework (MTREF)

Annual Budget
2011/2012 - 2013/2014

Table of Contents

Table of Contents 2
Glossary 3
PART 1 – ANNUAL BUDGET 5
Section 1 – Mayor's Budget Speech 5
Section 2 - Budget Related Resolutions 5
Section 3 – Executive Summary 6
Section 4 – Annual budget tables 18
PART 2 – SUPPORTING DOCUMENTATION 30
Section 5 – Overview of annual budget process 30
Section 6 – Overview of alignment of the annual budget with the Integrated Development Plan 32
Section 7 – Measurable performance objectives and indicators 35
Section 8 – Overview of budget related policies 37
Section 9 – Overview of budget assumptions 38
Section 10 – Overview of budget funding 41
Section 11 – Expenditure on allocations and grant programmes 43
Section 12 – Allocations and grants made by the Municipality 46
Section 13 – Councillor allowances and employee benefits 47
Section 14 – Monthly targets for revenue, expenditure and cash flow 48
Section 15 – Annual budgets and service delivery and budget implementation plans – internal departments 49
Section 16 – Annual budgets and service delivery agreements – municipal entities and other external mechanisms 51
Section 17 – Contracts having future budgetary implications 51
Section 18 – Capital expenditure details 52
Section 19 – Legislation compliance status 53
Section 20 – Other supporting documents 57
Section 21 – Municipal manager's quality certification 58

Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

NT – National Treasury

Net Assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

R&M – Repairs and maintenance on property, plant and equipment.

SCM – Supply Chain Management.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote – One of the main segments into which a budget is divided. In Knysna Municipality this means at directorate level.

PART 1 – ANNUAL BUDGET

Section 1 – Mayor's Budget Speech

To be inserted for final budget adoption.

Section 2 - Budget Related Resolutions

Knysna Municipality

MTREF 2011/12

The resolutions approved by Council with the final adoption of the budget in May will be:

RESOLVED:

[a]. That the annual budget of Knysna Municipality for the financial year 2011/2012; and indicative for the two projected years 2012/13 and 2013/14, as set-out in the schedules contained in Section 4, be approved:

1.1 Table A2: Budgeted Financial Performance (expenditure by standard classification)

1.2 Table A3: Budgeted Financial Performance (expenditure by municipal vote)

1.3 Table A4: Budgeted Financial Performance (revenue by source)

1.4 Table A5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding

[b]. Property rates reflected in Annexure 3 and any other municipal tax reflected in Annexure 1 are imposed for the budget year 2011/2012.

[c]. Tariffs and charges reflected in Annexure 3 are approved for the budget year 2011/2012.

[d]. Council notes the amended Integrated Development Plan adopted on 20 April 2011 reflected as summarised in Section 6.

[e]. The measurable performance objectives reflected in Section 7 are approved for the budget year 2011/2012.

[f]. The amended policies for credit control, debt collection and indigents as summarised in Section 8 (and detailed in Annexure 6) are approved for the budget year 2011/2012.

[g]. The other new and/or amended budget related policies summarised in Section 8 (and detailed in Annexure 6) are approved for the budget year 2011/2012.

[h]. The measurable performance objectives for each vote introduced in Section 15 and detailed in Annexure 8: 'Service Delivery and Budget Implementation Plan' are noted for the budget year 2011/2012.

Section 3 – Executive Summary

Introduction

The budget for the financial year 2011/12 is one of those more fascinating ones because it occurs in the middle of a local election campaign and will result in a new council having to live with a budget approved by an old council which was dissolved only some six weeks previously. National Treasury in their wisdom say that councils are not allowed to have a holding budget because the legislation does not allow for one. So we now have the potential of a newly elected council and councillors having to implement a budget they may not like, with tariffs and priorities which they have not approved and they cannot do anything about it for another thirteen months. Perhaps the legislation requires a small tweak. Nevertheless it is the role of the Municipal Manager and the CFO to ignore things like elections as government must continue to function as effectively as possible.

In assisting in the compilation of this MTREF, National Treasury Circulars No. 54 and 55 were used where necessary.

Background

In the background to the 2010/11 MTREF concern was raised about "the failure of national government to understand that the financing of local government is archaic and totally unsuitable for the 21st century. Sadly, there is little that has changed in the last year and clearly there is little that is going to change in the forthcoming year".

Remarkably however, there has been some comment on this front but sadly for all the wrong reasons. The Minister for Cooperative Governance and Traditional Affairs, whilst having to deal with the billing debacle in Johannesburg, raised the prospect of SARS taking over the billing of municipal services. Whilst there is little chance of this happening in respect of water and electricity, the issue of billing and collecting assessment rates should be looked at more closely if only because it would force municipalities to ensure that property valuations become fully market related and comparable—something that one would have thought that National Treasury would welcome. The current situation whereby valuations differ markedly between neighbouring municipalities is a farce, as is the situation where one local authority which has a reasonable roll and therefore has a reasonable number of objections, ends up being erroneously compared poorly with its neighbour with has an unreasonable roll with no or very few objections.

The Minister's comments also raise the issue that the services of water and electricity need to be regionalised and removed from local government into Boards, simply because the capital costs required to keep them functioning are well beyond the capability of most municipalities. The water issue in the Southern Cape in the last two years has highlighted this only too well. The REDS have been scrapped because no-one wants to grasp the fact that the only monetary compensator for local government has to be the national fiscus. Ultimately the issue is all about powers and functions and until that is

resolved and accepted, most, if not all B classified municipalities, will continue to battle financially and become less and less able to deliver on their constitutional mandate. Money makes the world go round and this is not rocket science.

ESKOM continues to play havoc with our base finances and has found an ally in the electricity regulator NERSA. The approved ESKOM increase of 20.38% will be passed through to the consumer at varying levels but it should be noted that the increase to the municipality is 26.71%. There will therefore be significant subsidisation by this municipality as indeed there was last year. This issue is discussed further in this document under Table A4.

NERSA is also now forcing the issue of Inclining Block Tariffs (IBTs). IBTs work very well in larger municipalities which have recognised cross-subsidisation from business to domestic through the tariff mechanism and/or have large static populations. Knysna has neither and our wealthier higher consuming population that is needed to make the IBT work optimally, often lives up-country and because of the national economic downturn is less inclined to visit Knysna than previously. The planned IBTs work well when consumption averages around the 850KwH to 1200KwH on a continual basis. We are unsure as yet as to whether that will be sustainable for us.

National Treasury have at least agreed with us on the impact of IBTs and have said that NERSA's proposals should only be regarded as a guideline as they believe more work is required. Knysna will therefore be introducing a modified IBT that we believe caters for our poorer communities as well as allowing consumers to monitor and control consumption optimally.

The other issue with ESKOM is that our base revenue, because of the increases of the last three years, fell by 6% last year. That means that either, the proposed tariff increase must compensate this—not allowed by NERSA, or other tariffs and rates must rise to compensate—unaffordable to consumers, or expenditure must be cut both in real and actual terms. This latter approach obviously has staff and service delivery implications.

Water consumption has fallen as a result of our highly successful water usage campaign. The downside is a revenue loss of R4 million in 2010/11. The same principles apply to water as they do to electricity above.

A side issue of the water campaign that has now emerged is the fact that both the Auditor-General and the Provincial Government want us to reduce our water "losses". Obviously they do not tell us how, ie spend lots of money, but that is not the point. Aside from the fact that our "losses" are comfortably within both national and international norms, the irony of this viewpoint is that any water that this Council does not extract from the various rivers via our pumps is already "lost" and we only pump what we need. By "lost" it means that the water flows into our various estuaries and lagoons thereby maintaining the critical bio-diversity that is the reason we exist. What we lose is miniscule in comparison to the amount we do not extract but auditors do not seem to appreciate this simple fact.

In November 2009 the CFO presented to the Executive Mayoral Committee the financial analysis and plan for the financial years ending in June 2012. That plan called for tight budgets to enable Council to weather the storm of ESKOM, handle the cash outlay caused by the GRAP implementation and restore some balance to our long term capital debt. To a very large extent that analysis has been proven correct except for the fact that the economic downturn is proving more stubborn than thought and is effectively pushing our major capital expansion plans out to 2012/13 at the earliest. This is not a train smash because it will allow for two processes to come into play which will positively impact upon our financial planning going forward. Firstly, in May of 2011 there is going to be a municipal election. This in turn means that the 2011/12 budget is effectively a holding budget pending the development of a new IDP beginning in July 2012. Secondly, the effect of the proposed new General Valuation will also become evident in planning for the 2012/13 budget and this will allow the municipality to commence the new five year IDP off a more stable financial base.

The implementation of our three year financial plan has seen Council move from a cash neutral position to one where reserves are now moderately cash-backed and our projections for the forward years to 2013/14 show very positive cash reserves. In the last eight years the municipality, in financial and economic terms, has gone from bust to boom and back to bust and is now preparing itself for the next boom.

Past performance

Knysna Municipality has now attained four unqualified audit reports in the last five years and the qualified report received in 2006/07 was for technical reasons that had no effect on the financial stability or performance of Council. Whilst the unqualified reports are very positive achievements one has to be honest and say that they tell the reader little about whether we have improved service delivery or even delivered on our constitutional mandate. What they do say is that the Council is as honest as it can be in its endeavours and operations to tax and spend on behalf of the local populace. There is a huge demand on us to attain the status of a “clean” audit but the fact remains that the Finance department is grossly under-staffed at the technical accounting level. At the last estimate the department required fourteen additional staff. Until this situation is remedied or at least ameliorated to some extent, Knysna will continue, hopefully, to receive unqualified audits. “Clean” audits will remain for the foreseeable future beyond our reach.

We also receive an “audit” from the provincial treasury in the form of what they call their MTEC process. This culminates in a report which is effectively a comment on the budget. It would be impolite to call it a waste of time as they are only doing the job they perceive for themselves but its value to this municipality is at best marginal. An interesting comment in this regard is from the Provincial MEC for Local Government and Housing himself who states in the recently published Western Cape Strategic Plan as follows:

“Many national and provincial departments have developed capacity-building programmes for municipalities. … the programmes are not based on one provincial programme of support for each municipality. As a result capacity

support is uneven, there is a duplication of effort, and a municipality's improvement (or lack thereof) cannot be adequately assessed."

Budget Summary

Most of the basic information surrounding this year's budget is set out in 'Table A1: Budget Summary' shown in Section 4 of this document.

The anticipated final outcome of the current 2010/11 budget is that Council will end with a surplus after all transfers of some R22 million. This is below the original budgeted figure by some R17 million but a lot of this is from reduced capital transfers (R14.5m).

On the income side property rates are almost exactly on budget but service charge income, as discussed earlier, will be down R11.5m.

The capital expenditure emphasis remained on water and sewerage heavy infrastructure to the detriment of our social and community backlogs. We would dearly like to change this approach as water and sewerage capital expenditures are inordinately expensive to fund and more importantly maintain each year, however the continued influx from the Eastern Cape and from across our borders is rapidly proving to be beyond our affordability. Some time ago a previous Mayor of Knysna said inward migration had to stop and that Knysna was closed. Nothing has changed and the position is worsening with areas such as Hlalani and Ethembeni, which previously were not in our IDP plans let alone the budget, mushrooming. A decision will soon be required to consider stopping all housing construction outside of the previously agreed Knysna programme. The increased housing development may look and sound good but the reality is that the hidden add-on cost by the means of "free" services is a time bomb that will rapidly become unaffordable to the rest of the community who fund all the various services involved.

The budget for 2011/12 contains provision of R37.9m for free basic services. It could be argued that these services are set-off by means of the Intergovernmental Transfer (IGT) which amounted to some R22m in 2010/11 and is estimated at R26.7m in 2011/12. There is therefore a funding gap of R11.2m next year which is being made up directly from the rates and tariffs of consumers. A breakdown of these "freebies" is shown in section 12 of this document.

A closer examination of the formulae used by national government indicates that Knysna appears to have been allocated rather less IGT than it should have been getting in recent years. This is not just based on the fact that our population is probably close to being 50% above the figures used but also because the formulae includes a "differentiated revenue collection" ratio for rates which effectively means that the more successful you are at raising rates the less IGT you get. It is a perverse incentive by any stretch of the imagination. There are other inequities in the IGT system which will be taken up with national government within the course of the year, but until the latest proposed census data becomes available in 2013 we can expect little meaningful change or, more importantly, increase in our annual allocation.

Economically Knysna remains weak. Fundamentally we are a tourist region which exists within a national park and we need to accept and embrace this reality. We have tried a number of initiatives to encourage diversification but

the underlying economy remains tourism. Domestic construction took a battering during the world economic downturn and has not recovered. A stroll through town shows “for sale” boards on the domestic side and “space for lease” on the business side. No less an authority than the Economist magazine has said “that even when an economy recovers there is generally an 18-24 month lag before cities feel it”. In Knysna’s case that 18-24 has already lengthened to 24-36 months.

Knysna is a town that is predominantly domestic in its tax base. Knysna is 70 kilometres from nowhere and the majority of people that wish to relocate here are retirees or from the Eastern Cape. Neither of these groupings offer much in the way of disposable income for inward investment purposes nor do they encourage much economic growth outside of tourism. Previously there was a moratorium on development in the major centres of Sedgefield and Knysna because of the potential water shortages and the concerns that ESKOM was unable to deliver enough power. Both of these constrictors are now off the table for the foreseeable future and so development can and must begin again. Unfortunately this creates a friction between those who wish and need the municipality to develop and those who have retired to rural tranquillity and to get away from development.

Knysna’s financial system works on the big wheel, little wheel system. What this means is that the middle to upper income groupings (including Hornlee) pay 94% of billed revenues as compared to 6% in our other areas. In an economic downturn this is extremely problematic and even more so in a tourist town where some 50% of all business related activity is tourist based. It is generally accepted that the two month period prior to the World Cup in 2010 was the worst on record for the tourism business in Knysna. Symptomatic of this is the fact that two national restaurant and fast food franchises housed on Knysna’s main road have closed their doors within the last eighteen months. A successful Oyster Festival linked with the World Cup did marginally improve matters and tourism in general has picked up somewhat since with a reasonably successful Christmas period but it was not enough to materially alter and improve the local economy.

The continued closure of the “Choo-Tjoe” remains both an absolute tragedy and an absolute travesty for Knysna. As said this is a tourist town and the “Choo-Tjoe” was an iconic tourist attraction which directly and indirectly brought in millions to the local economy. The municipality working in conjunction with the MEC for Tourism must urgently find a way forward, even to the point of expropriating the relevant Transnet properties, to secure this long-term tourist benefit for Knysna. The situation cannot be allowed to deteriorate any further.

Financial position and MTREF strategy

The financial position of Knysna Municipality is set out in ‘Table A6: Budgeted Financial Position’. Later in the document this is returned to in more detail but in essence what the table shows is one of minimising our borrowings and trying to keep our debtors from rising out of control, whilst at the same time striving to increase our service delivery to residents represented by the increased spend on Property, Plant and Equipment.

Cash Flow

A number of years ago Knysna was, according to research data published nationally, the highest geared municipality in South Africa. Essentially we had one of the highest debt to revenue ratios of all municipalities. This in itself is not a concern provided payment and expenditure levels are managed correctly.

Knysna's budget is driven to ensure the cash flow is protected as far as possible. That often means hard decisions that perhaps are often not appreciated or liked by Councillors and, more especially, staff. Councillors have been supportive in ensuring the survival of the municipality and understand the approach taken. No Council may borrow its way out of trouble as it could in the past. Today if a Council gets into financial difficulties then National Treasury and provincial governments step in. It is believed that there are between 30-50 authorities nation-wide under "administration" in this way. Obviously this is not a route to follow as all that can happen is that staff will continue to get paid but no services delivered.

This budget is premised on a 96% payment level. This is based on the levels experienced at the adjustment budget stage in January 2011 and is two percentage points above the rate predicted in the 2010/11 budget. This may seem a touch incongruous when one considers the drop in service charge revenues but it includes the recovery of arrears as a result of our on-going and very successful credit control actions currently taking place. Our credit control actions are not harsh but measured and targeted and backed up by good data management.

Capital Budget

Once again it is not the intention of Knysna to borrow unduly in the new financial year. As stated the nature of the local economy remains very fragile and is not likely to improve markedly in the next twelve months. The position in regard to taking on new debt therefore remains in line with our financial plan and MTREF which is to limit borrowing until 2012/13.

The capital budget for 2011/12 will total R63 million of which R30.2 million is funded from national and provincial grants and R32.8 million from internally generated funds and borrowings. The various projects are set out in 'Annexure 2: Supporting Table SA36'. One project that requires comment is that of Municipal Properties. An amount of R5 million has been set aside to rebuild and up-grade municipal buildings and municipal complexes and most especially the Stores complex in our Industrial Area. The reason for this is twofold. Firstly, the complex has been seriously neglected to the point where it is becoming dangerous to work in. Secondly, by up-grading the complex we will be able to move staff out of the corporate centres in Clyde and Queen Streets to that complex. This in turn will allow us to move more staff internally within the main corporate centres thereby postponing for a short while at least, the need to build, purchase or rent at more cost a new corporate centre. The corporate centre is 15 years overdue and cannot be put off much longer. In any event both the corporate centres are illegal from a handicapped persons perspective and need lifts to be built.

It is estimated that Council needs to spend some R15 million over the next five years to upgrade its own buildings and assets including sportsfields, libraries and halls, all of which have been badly neglected in recent years.

The table below highlights two indicators as taken from Table SA8 namely, those regarding capital charges and gearing. These indicators are two of the most critical that any potential investor or lender will look at, obviously in conjunction with issues such as payment levels etc.

%	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Capital charges /Opex	9.3	7.5	7.8	7.5	7.0	6.3
Gearing	62.3	48.9	47.0	43.3	35.8	30.0

The two indicators show quite categorically that by the end of 2011/12 that the municipality will be in the very enviable position of being able to borrow moneys from the capital market at competitive rates and in reasonable quantity. The immediate intention will be to borrow to pre-fund MIG expenditures thereby eliminating much of our previous cash flow worries. This is directly in line with the short-term borrowing philosophy of National treasury.

The other interesting point is that the capital charges ratio of 7.5% is almost half that of the level previously regarded as being of concern within local government. Knysna in the late 1990's and early part of the new millennium was previously at the 15% plus levels, at which point the warning lights were switched on. Now we can approach the next IDP cycle with a good degree of fiscal confidence.

Cash Flow/Land Sales

Two years ago a Strategic Bosberaad agreed that land sales be considered as an alternative to borrowing more moneys. The municipality owns land which is both valuable and under-utilised. Obviously the land in question will not be required for meaningful Council purposes. It is also our intention to become far more creative with those land holdings which lend themselves to area improvement. To-date we have not sold land but the exercise as to what land could be sold is well advanced.

An amount of R5 million has been budgeted under the Neighbourhood Development Partnership Grant (NDPG). Previously this was to be managed by the Knysna Economic Development Agency (KEDA) but at a Council meeting in December 2010 it was decided that the management and overall expenditure of the NDPG would be kept within Council. Plans are currently being developed to ensure the NDPG is spent efficiently and a number of projects/plans will be submitted to Council in the new financial year. During April 2011 the first project, a new taxi rank in Hornlee, was commenced. At this point KEDA will concentrate on the moneys it receives from the IDC.

Operating Expenditure

In his recent budget speech the Minister of Finance stated "the vision for the future is abundantly clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high".

This approach was reinforced in the municipal budget circular regarding this budget which re-emphasised the role of local government:

- to support decent employment through inclusive economic growth;
- to create an enabling environment for investment by streamlining planning application processes;
- to ensure proper maintenance and rehabilitation of essential services infrastructure;
- to ensure proper implementation of the EPWP at municipal level;
- to design service delivery processes to be labour intensive;
- to improve procurement systems to eliminate corruption and ensure value for money and
- to utilise community structures to provide services.

This budget continues the emphasis and drive begun internally last year to promote job creation. In addition Council now requires that tenderers must employ local labour as far as possible. In relooking at our procurement policies and practices we have also begun the process of ensuring contract rotation amongst prospective bidders. It is not fair that one bidder gets more work than others. What is fair is that bidders are local, can do the job and that there are enough competitors to ensure that the price tendered is both reasonable and affordable to this municipality. The successes so far have outweighed the failures. There have been a number of complaints from more "established" businesses but the entry levels of others into the process have been reduced and the moneys spread around, without any noticeable or commented quality fall-off. It has also highlighted the previously commented upon "over-charging" of the municipality for services rendered and is entrenching better "value for money" in our SCM dealings. This process will be deepened and expanded in the course of the coming financial year.

Operating Revenue

Local government is in essence funded from three sources. Assessment rates, revenues from trading services (the majority from electricity in Knysna's case) and transfers from national government. Approximately 65% of our revenue is from rates and electricity and there is therefore a clear relationship which makes price changes very sensitive.

Prior to 2009 electricity and rates increases were usually similar in nature. Since then the ESKOM increases have been 20% plus per annum, and the effect is to make Councils far more dependent on electricity revenue than is advisable. This is precisely the reason the REDS were scrapped. It must now be said that the ESKOM effect has been so great that it has dwarfed the relationship with rates and seriously compromised the financial sustainability

of local government going forward. It is pointless national government discussing the tax base of local government when an electricity tariff is now more important in revenue terms.

Tariff implications of the annual budget

Electricity Tariff

The increase in the non-domestic tariff is 25% on average which is below the bulk increase to Council of 26.71%. The domestic tariff will increase by an average 17%. However the increase in an individual tariff may vary depending on whether a domestic consumer has a normal credit meter or a prepaid meter. Going forward the rand per kWh will now be the same for both meter types but a credit meter will continue to have a higher basic charge included. Council has also budgeted for consumers to convert from conventional to prepaid at a once-off cost of R900 for 60 amp users and R500 for 30 amp users. This cost actually pays for itself within twelve months and it is recommended that all domestic consumers take advantage of this offer.

Water Tariff

The water tariff increase for domestic consumers will be 3.5% on the basic charge and the consumption charge. For business consumers it will be 5% on the basic charge and 3.5% on consumption.

The reasons for these increases are twofold. Firstly, in recent years we have gone through prolonged periods of high tariff increases and the introduction of punitive tariffs culminating with an across the board increase of 15% in last year's budget. Secondly the average daily consumption figures throughout the municipality have fallen to levels which are regarded as manageable and in line with our projected growth over the next years and are catered for in the recent capital expansions in Sedgefield and Knysna. To all intents and purposes we no longer have any water issues/concerns provided our major water courses continue to flow. If these rivers stop for any length of time our back-up systems of boreholes, reverse osmosis plant or desalination plant kick in.

The proposed water tariff, based on projected consumptions, will continue to allow for longer term planning as to whether we should be constructing a large desalination plant, as is now being considered for Cape Town, or for more capital intensive upstream dams. Technically to balance the water service an increase of some 10% in the tariff would be required in the new budget.

Assessment Rates

The assessment rate will rise by 5.5% for domestic rate payers and 6% for businesses. There is a tendency for many municipalities to charge businesses as much as three times that of domestic rates. The major cities grouping have been petitioning SALGA and the relevant national department to allow the rate spread to be as much as four and possibly even five times. The ratio in Knysna will only be 1:1.73 for the next year. We need to encourage business development and relocation to Knysna not chase it away and contrary to

popular opinion in the business community our assessment rate charge is actually very low.

The refuse tariffs will increase by 5% for domestic and 6% for business and the sewerage tariffs will increase by the same as the basic water tariffs. These are marginally below the National Treasury inflation estimates of 6.08% after the municipal wage increase is taken into account. In recent years there has been a considerable increase in assessment rate income. This is almost entirely because of the on-going work we do to verify and cleanse our consumer database. Correct and accurate billing is not an IT issue, it is a human and intensely personal issue. Correct and accurate billing is about correct and accurate data collection and data management and not the introduction of some fancy new system by a bunch of consultants.

General Valuation

A new general valuation roll will be introduced from 1 July 2012. A tender process is currently in hand and a full public participation exercise is being prepared to accompany the roll.

The further movement of domestic refuse and sewerage charges into the rates is on hold until the new GV is compiled and introduced next year. Additionally the whole issue of revenue foregone will be looked at in conjunction with the new GV including the issue of the free 6kl of water currently given to all domestic consumers and the additional R15 000 and 20% rebate given to domestic property owners.

What is abundantly clear is that the notion of water, refuse and sewer being "trading" services, as defined by national government, i.e. their costs should be recovered as far as possible within that service activity, is nowadays a nonsense. A cursory glance at the outstanding debtors of the Knysna municipality shows that the biggest percentage increases are in these three services, for the simple reason that the services cannot be discontinued or "cut-off".

The notion that is being perpetuated by "experts", who should know better, that tariffs must be cost-reflective is not only nonsensical but also shows a lack of understanding with current reality.

National, Provincial & District priorities

The National, Provincial and District Context

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery challenges we face in Knysna and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macroeconomic stability, but our own local economy is still plagued with high levels of unemployment and poverty.

The following table shows the allocations to Knysna Municipality as set out in the National Division of Revenue Act of 2011 in the MTEF period;

Allocations 2011/12 – 2013/14			
	Medium Term Estimates		
	2011/12 Allocation (R'000)	2012/13 Allocation (R'000)	2013/14 Allocation (R'000)
Total Allocation	**54 960**	**65 012**	**80 866**
Equitable share	26 687	29 726	31 695
Infrastructure	26 233	33 236	47 021
Capacity building and restructuring	2 040	2 050	2 150

Provincial Government

	2011/12 Allocation (R'000)	2012/13 Allocation (R'000)	2013/14 Allocation (R'000)
Total Provincial Transfers to Knysna	45 493	44 896	45 704

Omitted from the above tables is an amount of R2 341 555 being the amount from the Industrial Development Corporation (IDC) which is payable to KEDA. As the IDC is an organ of state created by the Department of Trade and Industry these moneys can only be paid to the controlling municipality in the first instance.

The amounts emanating from national government are considerably less than recent years but it must be remembered that previously they contained moneys for the emergency drought relief.

Budget-related policies

Last year Council introduced a Funding and Reserves Policy. The salient points of this policy are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all inclusive and the conditions of all provisions must be cash met where required. A number of indicators are also highlighted to ensure the municipality has enough cash to continue operations. The policy notwithstanding, the primary financial approach of Council remains that assets should be in the ground and not in the bank.

The financial requirements of the policy have been reported upon each month within the broader Section 71 report. This is a report which I am delighted to say continues to garner praise and laurels from external bodies who look at us, and it keeps us on the straight and narrow path of cash is king.

With regard to our Reserves a number of cash funded reserves are now in place. They include the Capital Replacement Reserve (CRR) and the employee benefits reserve which will ensure sufficient cash is available to pay post-retirement employee benefits in the future.

In respect of the other budget policies the following are noted:

- *Rates Policy - no change*
- *Credit Control Policy – minor amendments in regard to consolidating arrear accounts and in the charging of interest*
- *Indigent Policy – no change.*
- *Virement policy – no change.*
- *Tariff Policy – no change.*
- *Liability, Investment and Cash Management Policy – no change.*
- *Supply Chain Management Policy – amendments in regard to increased use of local labour and local suppliers.*

Provision of basic services

With regard to the provision of basic services, the table below shows what is still lagging. It should be remembered that the financing figures at this stage exclude all bulk upgrades that will be required to the water, sewer and electrification networks and exclude any new road, pavement or storm water costs. The probability is that the current infrastructure will have to be doubled in capacity based on population projections.

Area	Total no of households	Timeframe to be addressed	Cost to address
Housing	7,989	15 years	R869 million
Water	591	5 years	R10 million
Sanitation	3,682	5 years	R5 million
Refuse removal (at least once a week at site)	-	-	-
Electricity (in house)	230	2010/2011	R2 million
Streets and storm water	-	-	-

Source: 2009/2010 Annual Report of Knysna Municipality

Conclusion

The 2011/12 budget for Knysna Municipality is being compiled in the midst of an election and at the end of a five year IDP cycle. Without calling it as such, it is a holding budget. Eskom continues to recklessly impact upon us unabated and we are still feeling the negative effects of the economic downturn.

Notwithstanding the above however this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and allows us breathing space to move forward onto the new platform that the impending general valuation roll and IDP will bring in 2012/13.

Section 4 – Annual budget tables

The intention of this Section is two-fold.

Firstly, the following tables form the basis of the Council resolution approving the annual budget for 2011/2012:

- Table A2: Budgeted Financial Performance (expenditure by standard classification)
- Table A3: Budgeted Financial Performance (expenditure by municipal vote)
- Table A4: Budgeted Financial Performance (revenue by source)
- Table A5: Budgeted Capital Expenditure for both multi-year and single year appropriations by vote, standard classification and funding

Secondly, this section presents and explains the various tables that must be compiled as required by National Treasury. Some of the tables are variations on a theme which will allow NT to put out macro statistics. Whilst this is a good practice, it can also be a touch meaningless. It has therefore been decided to only comment on a table when there is something important or relevant to say.

Table A1 - Budget Summary

WC048 Knysna - Table A1 Budget Summary

Description	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Financial Performance										
Property rates	59 677	82 417	110 522	121 380	120 486	120 486	–	126 703	138 791	149 471
Service charges	128 293	156 097	175 581	210 003	198 512	198 512	–	236 772	273 921	317 289
Investment revenue	6 226	7 573	5 876	5 012	5 012	5 012	–	6 786	7 126	7 553
Transfers recognised - operational	38 681	49 871	60 122	58 320	72 419	72 419	–	72 552	60 234	65 318
Other own revenue	17 389	19 670	26 767	13 781	14 072	14 072	–	18 784	19 586	20 295
Total Revenue (excluding capital transfers and contributions)	250 267	315 629	378 868	408 496	410 501	410 501	–	461 597	499 658	559 926
Employee costs	87 534	100 602	113 922	130 166	127 283	127 283	–	142 574	153 732	162 616
Remuneration of councillors	3 633	4 009	4 302	5 132	4 352	4 352	–	5 899	6 164	6 411
Depreciation & asset impairment	24 277	28 822	30 278	31 344	31 344	31 344	–	33 807	35 245	36 831
Finance charges	15 542	17 065	16 579	22 496	19 394	19 394	–	20 363	19 822	18 036
Materials and bulk purchases	54 059	66 517	82 854	107 938	100 458	100 458	–	123 559	152 582	188 954
Transfers and grants	5 336	5 003	5 357	5 460	5 608	5 608	–	5 791	6 114	6 457
Other expenditure	95 531	105 097	122 801	118 997	137 597	137 597	–	136 411	123 710	131 752
Total Expenditure	285 912	327 115	376 093	421 532	426 036	426 036	–	468 403	497 370	551 055
Surplus/(Deficit)	(35 645)	(11 486)	2 775	(13 036)	(15 535)	(15 535)	–	(6 807)	2 288	8 871
Transfers recognised - capital	40 698	34 193	66 805	52 435	37 894	37 894	–	30 243	49 674	61 252
Contributions recognised - capital & contributed a	6 014	2 289	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	11 067	24 996	69 580	39 399	22 359	22 359	–	23 436	51 962	70 123
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	11 067	24 996	69 580	39 399	22 359	22 359	–	23 436	51 962	70 123
Capital expenditure & funds sources										
Capital expenditure	71 621	66 092	99 593	68 288	57 733	57 733	–	63 004	74 975	88 510
Transfers recognised - capital	40 698	34 193	65 195	52 435	37 894	37 894	–	30 243	49 674	61 252
Public contributions & donations	4 796	474	–	–	724	724	–	–	–	–
Borrowing	22 118	29 966	24 948	9 650	11 557	11 557	–	16 645	13 500	12 500
Internally generated funds	4 008	1 459	9 450	6 203	7 558	7 558	–	16 116	11 801	14 758
Total sources of capital funds	71 621	66 092	99 593	68 288	57 733	57 733	–	63 004	74 975	88 510
Financial position										
Total current assets	87 676	115 973	103 629	97 216	96 732	96 732	–	84 945	98 742	129 771
Total non current assets	393 216	432 418	505 528	547 446	533 371	533 371	–	570 597	632 416	692 028
Total current liabilities	89 384	94 854	77 995	61 110	63 352	63 352	–	70 940	85 509	99 865
Total non current liabilities	170 211	207 244	212 683	225 058	224 414	224 414	–	218 828	227 913	234 075
Community wealth/Equity	221 298	246 294	318 479	358 493	342 338	342 338	–	365 774	417 736	487 859
Cash flows										
Net cash from (used) operating	39 519	51 934	42 687	76 988	65 536	65 536	–	85 682	116 707	141 303
Net cash from (used) investing	(72 114)	(64 687)	(41 502)	(64 893)	(54 338)	(54 338)	–	(70 900)	(100 371)	(117 959)
Net cash from (used) financing	17 222	31 429	4 056	(6 934)	5 000	5 000	–	(5 997)	(9 782)	(3 749)
Cash/cash equivalents at the year end	26 743	45 419	50 661	36 322	6 140	6 140	(10 058)	14 925	21 478	41 073
Cash backing/surplus reconciliation										
Cash and investments available	37 227	57 238	30 073	51 124	41 649	41 649	–	38 668	71 016	114 947
Application of cash and investments	62 737	75 909	15 996	34 575	25 932	25 932	–	32 467	61 422	95 828
Balance - surplus (shortfall)	(25 510)	(18 671)	14 077	16 549	15 718	15 718	–	6 201	9 594	19 119
Asset management										
Asset register summary (WDV)	381 717	420 251	491 633	532 345	517 871	517 871	547 028	547 028	583 121	618 594
Depreciation & asset impairment	24 277	28 822	30 278	31 344	31 344	31 344	33 807	33 807	35 245	36 831
Renewal of Existing Assets	15 708	20 941	34 537	21 520	23 460	23 460	40 295	40 295	27 189	21 948
Repairs and Maintenance	18 544	18 914	17 157	18 410	19 049	19 049	26 649	26 649	28 957	31 571
Free services										
Cost of Free Basic Services provided	8 034	10 115	–	13 970	13 970	13 970	–	–	–	–
Revenue cost of free services provided	25 108	30 400	31 739	32 455	35 925	35 925	37 903	37 903	40 940	44 211
Households below minimum service level										
Water:	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

Total revenue before transfers and contributions will rise almost 13% from last years original budget and 12.4% from the final estimate. Expenditure will have risen 11.1% and almost 10.0% on the same basis.

Employee costs have risen by 12% on the 2010/11 adjustment budget figure. These are further broken down in Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits'.

Cognisance should be taken of the R8.2 million or 45% increase in repairs and maintenance from last years' original budget.

The surplus of R23.4 million after capital transfers and contributions is not a “cash” surplus available for spending or investment but neither is the R6.8 million deficit before capital transfers an indication of a cash shortage.

Table A7: ‘Budgeted Cash Flows’ indicates the change in the cash position of the Council as impacted upon by the budget for the MTREF period.

Table A2 - Budgeted Financial Performance (by standard classification)

WC048 Knysna - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue - Standard										
Governance and administration		73 985	101 486	135 877	148 309	141 754	141 754	153 671	167 560	191 329
Executive and council		2 301	5 317	10 635	4 060	4 774	4 774	8 047	6 209	6 560
Budget and treasury office		68 342	92 188	119 247	129 345	128 451	128 451	136 851	149 293	160 503
Corporate services		3 342	3 981	5 996	14 904	8 529	8 529	8 773	12 058	24 266
Community and public safety		53 636	46 630	46 098	43 551	52 890	52 890	52 700	49 124	50 528
Community and social services		643	953	1 381	1 566	1 566	1 566	3 863	2 384	934
Sport and recreation		903	708	1 545	159	858	858	943	1 018	1 069
Public safety		1 780	2 782	4 387	1 895	2 133	2 133	2 366	2 433	2 501
Housing		50 262	42 182	38 785	39 931	48 333	48 333	45 528	43 289	46 024
Health		48	3	–	–	–	–	–	–	–
Economic and environmental services		12 783	15 055	16 557	5 942	5 908	5 908	7 656	6 803	6 991
Planning and development		2 623	1 755	2 263	1 172	1 172	1 172	2 038	1 973	1 974
Road transport		10 160	13 300	14 294	4 770	4 646	4 646	5 618	4 830	5 017
Environmental protection		–	–	–	–	90	90	–	–	–
Trading services		156 575	188 940	247 142	263 129	247 843	247 843	277 813	325 845	372 330
Electricity		80 166	102 752	126 129	152 924	145 449	145 449	182 488	217 026	256 895
Water		39 864	47 992	91 562	69 349	63 143	63 143	47 206	47 623	50 868
Waste water management		20 058	19 121	12 719	22 392	20 787	20 787	27 607	39 266	41 408
Waste management		16 487	19 076	16 733	18 464	18 464	18 464	20 512	21 930	23 159
Other	4	–	–	–	–	–	–	–	–	–
Total Revenue - Standard	2	296 979	352 111	445 673	460 931	448 395	448 395	491 840	549 332	621 178
Expenditure - Standard										
Governance and administration		42 584	47 102	67 097	62 640	60 462	60 462	70 899	70 953	75 445
Executive and council		20 141	20 563	28 011	31 937	32 514	32 514	32 368	31 910	33 820
Budget and treasury office		6 261	7 407	11 442	6 979	6 763	6 763	15 654	14 656	15 577
Corporate services		16 182	19 132	27 644	23 725	21 185	21 185	22 877	24 387	26 048
Community and public safety		74 068	80 918	94 572	92 972	107 619	107 619	107 248	97 525	103 112
Community and social services		6 549	7 968	9 093	10 460	10 682	10 682	12 270	12 533	13 224
Sport and recreation		10 935	10 939	10 494	13 381	13 100	13 100	14 488	15 376	16 014
Public safety		18 997	16 930	19 800	20 710	21 730	21 730	25 655	27 507	29 210
Housing		34 724	42 029	51 875	44 674	58 277	58 277	50 550	37 518	39 822
Health		2 862	3 052	3 310	3 747	3 830	3 830	4 286	4 591	4 842
Economic and environmental services		31 906	35 362	30 163	34 807	34 883	34 883	36 849	38 468	39 228
Planning and development		4 221	5 081	4 995	6 078	6 316	6 316	6 610	7 088	7 442
Road transport		27 685	30 282	24 574	28 260	27 609	27 609	29 013	30 083	30 420
Environmental protection		–	–	594	469	959	959	1 227	1 297	1 365
Trading services		137 354	163 732	184 262	231 113	223 072	223 072	253 407	290 423	333 270
Electricity		69 523	88 384	106 258	132 192	126 354	126 354	152 886	182 572	218 706
Water		31 346	36 236	37 752	44 068	42 439	42 439	48 020	51 320	54 250
Waste water management		19 047	19 723	22 208	29 237	28 178	28 178	30 974	33 992	37 081
Waste management		17 438	19 390	18 043	25 616	26 101	26 101	21 527	22 539	23 233
Other	4	–	–	–	–	–	–	–	–	–
Total Expenditure - Standard	3	285 912	327 115	376 093	421 532	426 036	426 036	468 403	497 370	551 055
Surplus/(Deficit) for the year		11 067	24 996	69 580	39 399	22 359	22 359	23 436	51 962	70 123

References

1. Government Finance Statistics Functions and Sub-functions are standardised to assist the compilation of national and international accounts for comparison purposes

2. Total Revenue by standard classification must reconcile to Total Operating Revenue shown in Budgeted Financial Performance (revenue and expenditure)

3. Total Expenditure by Standard Classification must reconcile to Total Operating Expenditure shown in Budgeted Financial Performance (revenue and expenditure)

4. All amounts must be classified under a standard classification (modified GFS). The GFS function 'Other' is only for Abbatoirs, Air Transport, Markets and Tourism - and if used must be supported by footnotes. Nothing else may be placed under 'Other'. Assign associate share to relevant classification

Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

WC048 Knysna - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue by Vote	1									
Vote 1 - Executive & Council		2 301	5 317	10 635	4 060	4 774	4 774	8 047	6 209	6 560
Vote 2 - Corporate Services		1 866	2 896	3 115	1 899	2 181	2 181	3 186	3 431	3 597
Vote 3 - Financial Services		68 407	92 224	119 275	129 351	128 457	128 457	136 881	149 323	160 533
Vote 4 - Strategic Services		615	572	1 643	12 167	–	–	–	–	–
Vote 5 - Planning & Development		52 885	43 937	41 068	41 103	54 683	54 683	52 566	53 262	67 998
Vote 6 - Community Services		24 232	27 124	26 090	25 495	26 597	26 597	31 964	32 224	32 334
Vote 7 - Electrical Services		80 283	102 955	128 368	152 924	145 687	145 687	182 488	217 026	256 895
Vote 8 - Technical Services		66 390	77 087	115 480	93 932	86 016	86 016	76 708	87 857	93 261
Example 9 - Vote9		–	–	–	–	–	–	–	–	–
Example 10 - Vote10		–	–	–	–	–	–	–	–	–
Example 11 - Vote11		–	–	–	–	–	–	–	–	–
Example 12 - Vote12		–	–	–	–	–	–	–	–	–
Example 13 - Vote13		–	–	–	–	–	–	–	–	–
Example 14 - Vote14		–	–	–	–	–	–	–	–	–
Example 15 - Vote15		–	–	–	–	–	–	–	–	–
Total Revenue by Vote	2	296 979	352 111	445 673	460 931	448 395	448 395	491 840	549 332	621 178
Expenditure by Vote *to be appropriated*	1									
Vote 1 - Executive & Council		20 141	20 563	28 011	31 937	32 514	32 514	32 368	31 910	33 820
Vote 2 - Corporate Services		7 101	8 273	9 536	8 439	9 692	9 692	11 089	11 435	11 961
Vote 3 - Financial Services		5 245	6 839	10 390	6 977	6 803	6 803	15 684	14 686	15 607
Vote 4 - Strategic Services		4 683	6 392	11 326	6 394	3 631	3 631	–	–	–
Vote 5 - Planning & Development		38 946	48 311	59 582	54 027	69 197	69 197	63 245	51 388	54 816
Vote 6 - Community Services		54 722	59 921	63 476	76 366	78 131	78 131	80 833	84 781	88 153
Vote 7 - Electrical Services		75 474	90 204	109 160	135 678	129 749	129 749	157 374	187 845	224 860
Vote 8 - Technical Services		79 600	86 612	84 612	101 716	96 318	96 318	107 810	115 324	121 838
Example 9 - Vote9		–	–	–	–	–	–	–	–	–
Example 10 - Vote10		–	–	–	–	–	–	–	–	–
Example 11 - Vote11		–	–	–	–	–	–	–	–	–
Example 12 - Vote12		–	–	–	–	–	–	–	–	–
Example 13 - Vote13		–	–	–	–	–	–	–	–	–
Example 14 - Vote14		–	–	–	–	–	–	–	–	–
Example 15 - Vote15		–	–	–	–	–	–	–	–	–
Total Expenditure by Vote	2	285 912	327 115	376 093	421 532	426 036	426 036	468 403	497 370	551 055
Surplus/(Deficit) for the year	2	11 067	24 996	69 580	39 399	22 359	22 359	23 436	51 962	70 123

References

1. Insert 'Vote'; e.g. department, if different to standard classification structure

2. Must reconcile to Budgeted Financial Performance (revenue and expenditure)

3. Assign share in 'associate' to relevant Vote

The various points of note within this table are the following.

Revenue

- Executive & Council: recognition of IDC grant when KEDA meets its grant conditions
- Strategic Services: scrapped
- Technical Services: dip because of flood moneys spent in prior years

Expenditure

- Financial Services: increased GV spend of R4.5 million and increased bad debt contribution
- Planning & Development: larger Housing allocation to capital

Table A4 - Budgeted Financial Performance (revenue and expenditure)

WC048 Knysna - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue By Source											
Property rates	2	58 235	80 793	108 597	119 421	118 527	118 527	–	124 931	136 911	147 478
Property rates - penalties & collection charges		1 442	1 625	1 926	1 959	1 959	1 959		1 772	1 880	1 993
Service charges - electricity revenue	2	73 520	93 370	117 077	145 185	137 510	137 510	–	173 289	207 003	246 289
Service charges - water revenue	2	28 390	31 915	35 479	41 034	37 421	37 421	–	38 049	40 474	43 306
Service charges - sanitation revenue	2	11 939	13 494	8 460	9 058	9 058	9 058	–	9 486	9 942	10 441
Service charges - refuse revenue	2	12 483	14 400	11 433	12 340	12 340	12 340	–	13 506	14 211	14 975
Service charges - other		1 961	2 919	3 132	2 386	2 183	2 183		2 442	2 291	2 278
Rental of facilities and equipment		2 763	3 344	3 810	2 923	3 126	3 126		4 853	5 243	5 503
Interest earned - external investments		6 226	7 573	5 876	5 012	5 012	5 012		6 786	7 126	7 553
Interest earned - outstanding debtors		3 404	4 173	3 777	3 843	3 843	3 843		3 683	3 795	3 909
Dividends received		–	–	–	–	–	–		–	–	–
Fines		1 575	2 513	2 125	1 989	1 989	1 989		2 282	2 352	2 422
Licences and permits		1 497	1 386	1 377	1 109	1 109	1 109		1 787	1 910	2 062
Agency services		1 717	1 692	1 689	1 731	1 731	1 731		1 698	1 706	1 715
Transfers recognised - operational		38 681	49 871	60 122	58 320	72 419	72 419		72 552	60 234	65 318
Other revenue	2	6 130	4 063	13 747	2 186	2 274	2 274	–	4 315	4 414	4 518
Gains on disposal of PPE		302	2 499	243	–	–	–		166	166	166
Total Revenue (excluding capital transfers and contributions)		250 267	315 629	378 868	408 496	410 501	410 501	–	461 597	499 658	559 926
Expenditure By Type											
Employee related costs	2	87 534	100 602	113 922	130 166	127 283	127 283	–	142 574	153 732	162 616
Remuneration of councillors		3 633	4 009	4 302	5 132	4 352	4 352		5 899	6 164	6 411
Debt impairment	3	1 245	6 205	12 107	22 623	23 586	23 586		15 395	14 733	16 639
Depreciation & asset impairment	2	24 277	28 822	30 278	31 344	31 344	31 344	–	33 807	35 245	36 831
Finance charges		15 542	17 065	16 579	22 496	19 394	19 394		20 363	19 822	18 036
Bulk purchases	2	42 461	53 767	69 031	92 337	86 382	86 382	–	109 455	137 914	173 772
Other materials	8	11 598	12 750	13 823	15 601	14 076	14 076		14 104	14 668	15 182
Contracted services		11 620	12 262	12 681	12 417	12 684	12 684	–	12 586	13 089	13 548
Transfers and grants		5 336	5 003	5 357	5 460	5 608	5 608		5 791	6 114	6 457
Other expenditure	4, 5	82 666	86 630	98 013	83 958	101 327	101 327	–	108 430	95 887	101 565
Loss on disposal of PPE		–	–	–	–	–	–		–	–	–
Total Expenditure		285 912	327 115	376 093	421 532	426 036	426 036	–	468 403	497 370	551 055
Surplus/(Deficit)		(35 645)	(11 486)	2 775	(13 036)	(15 535)	(15 535)	–	(6 807)	2 288	8 871
Transfers recognised - capital		40 698	34 193	66 805	52 435	37 894	37 894		30 243	49 674	61 252
Contributions recognised - capital	6	6 014	2 289	–	–	–	–	–	–	–	–
Contributed assets		–	–	–	–	–	–				
Surplus/(Deficit) after capital transfers & contributions		11 067	24 996	69 580	39 399	22 359	22 359	–	23 436	51 962	70 123
Taxation		–	–	–	–	–	–				
Surplus/(Deficit) after taxation		11 067	24 996	69 580	39 399	22 359	22 359	–	23 436	51 962	70 123
Attributable to minorities		–	–	–	–	–	–				
Surplus/(Deficit) attributable to municipality		11 067	24 996	69 580	39 399	22 359	22 359	–	23 436	51 962	70 123
Share of surplus/ (deficit) of associate	7	–	–	–	–	–	–				
Surplus/(Deficit) for the year		11 067	24 996	69 580	39 399	22 359	22 359	–	23 436	51 962	70 123

References

1. Classifications are revenue sources and expenditure type

2. Detail to be provided in Table SA1

3. Previously described as 'bad or doubtful debts' - amounts shown should reflect the change in the provision for debt impairment

4. Expenditure type components previously shown under repairs and maintenance should be allocated back to the originating expenditure group/item; e.g. employee costs

5. Repairs & maintenance detailed in Table A9 and Table SA34c

6. Contributions are funds provided by external organisations to assist with infrastructure development; e.g. developer contributions (detail to be provided in Table SA1)

7. Equity method

8. All materials not part of 'bulk' e.g road making materials, pipe, cable etc.

The most interesting element in this table is the percentage of electricity bulk purchases to electricity revenue. There have been a number of commentators in Knysna who have accused the municipality of exploiting the electricity tariff to generate higher “profits”. The table below, (figures taken from A4 above) in fact shows the complete opposite and that Knysna has done exactly what was asked of it by NERSA and held tariffs down—i.e. subsidised tariffs from the rates.

(R '000)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Bulk charge	53 767	69 031	86 382	109 455	137 914	173 772
Electricity revenue	93 370	117 077	137 510	173 289	207 003	246 289
% bulk/rev	57.6	59.0	62.8	63.2	66.6	70.1

The other way of confirming this is to take the increase cost in bulk charges over the period (223.2%) as measured against the increase in revenue (163.8%).

A similar argument has existed regarding rates and salary increases. The table below shows the relationship between property rates and employee costs since 2008/09 through the duration of the MTREF.

(R '000)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Property rates	80 793	108 597	118 527	124 931	136 911	147 478
Employee costs	100 602	113 922	127 283	142 574	153 732	162 616
% rates/ empl costs	80.3	95.3	93.1	87.6	89.1	90.7

What this shows is that whilst rates revenue has risen 82.5% over the period, in contrast staff costs have only risen 61.6% indicating that Council, despite what has been written about it, has kept salary costs in check to enhance delivery spend.

Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding

WC048 Knysna - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Capital expenditure - Vote											
Multi-year expenditure *to be appropriated*	2										
Vote 1 - Executive & Council		–	–	–	–	–	–	–	1 000	1 000	2 500
Vote 2 - Corporate Services		–	–	–	–	–	–	–	–	–	–
Vote 3 - Financial Services		–	–	–	–	–	–	–	4 000	3 000	500
Vote 4 - Strategic Services		–	–	–	10 526	–	–	–	–	–	–
Vote 5 - Planning & Development		–	–	–	11 124	9 386	9 386	–	11 404	25 496	37 022
Vote 6 - Community Services		–	–	–	–	–	–	–	–	–	–
Vote 7 - Electrical Services		–	–	–	1 650	2 196	2 196	–	8 245	–	–
Vote 8 - Technical Services		–	–	–	10 940	11 305	11 305	–	15 643	8 268	–
Example 9 - Vote9		–	–	–	–	–	–	–	–	–	–
Example 10 - Vote10		–	–	–	–	–	–	–	–	–	–
Example 11 - Vote11		–	–	–	–	–	–	–	–	–	–
Example 12 - Vote12		–	–	–	–	–	–	–	–	–	–
Example 13 - Vote13		–	–	–	–	–	–	–	–	–	–
Example 14 - Vote14		–	–	–	–	–	–	–	–	–	–
Example 15 - Vote15		–	–	–	–	–	–	–	–	–	–
Capital multi-year expenditure sub-total	7	–	–	–	34 240	22 887	22 887	–	40 292	37 764	40 022
Single-year expenditure *to be appropriated*	2										
Vote 1 - Executive & Council		194	52	1 835	320	296	296	–	2 909	133	147
Vote 2 - Corporate Services		130	35	32	60	132	132	–	64	68	74
Vote 3 - Financial Services		1 527	407	701	559	761	761	–	595	631	640
Vote 4 - Strategic Services		454	2 019	4 698	86	–	–	–	–	–	–
Vote 5 - Planning & Development		29 791	19 397	4 023	1 871	2 428	2 428	–	2 041	1 635	2 249
Vote 6 - Community Services		4 674	9 051	1 471	749	1 761	1 761	–	3 971	2 909	255
Vote 7 - Electrical Services		14 711	7 246	13 415	3 800	5 388	5 388	–	2 939	3 788	4 842
Vote 8 - Technical Services		20 140	27 884	73 417	26 603	24 080	24 080	–	10 193	28 047	40 281
Example 9 - Vote9		–	–	–	–	–	–	–	–	–	–
Example 10 - Vote10		–	–	–	–	–	–	–	–	–	–
Example 11 - Vote11		–	–	–	–	–	–	–	–	–	–
Example 12 - Vote12		–	–	–	–	–	–	–	–	–	–
Example 13 - Vote13		–	–	–	–	–	–	–	–	–	–
Example 14 - Vote14		–	–	–	–	–	–	–	–	–	–
Example 15 - Vote15		–	–	–	–	–	–	–	–	–	–
Capital single-year expenditure sub-total		71 621	66 092	99 593	34 048	34 846	34 846	–	22 712	37 211	48 488
Total Capital Expenditure - Vote		71 621	66 092	99 593	68 288	57 733	57 733	–	63 004	74 975	88 510
Capital Expenditure - Standard											
Governance and administration		2 472	3 194	7 557	13 887	8 055	8 055	–	14 130	13 983	24 100
Executive and council		194	52	1 835	320	296	296		3 909	1 133	2 647
Budget and treasury office		748	229	54	559	151	151		1 605	1 112	119
Corporate services		1 531	2 914	5 668	13 008	7 608	7 608		8 616	11 738	21 334
Community and public safety		32 208	23 351	6 445	12 948	9 027	9 027	–	12 429	22 689	21 612
Community and social services		105	1 100	353	–	54	54		2 700	2 684	–
Sport and recreation		526	390	31	–	853	853		–	–	–
Public safety		1 798	2 503	2 071	–	809	809		771	–	–
Housing		29 780	19 357	3 990	12 948	7 311	7 311		8 958	20 005	21 612
Health		–	–	–	–	–	–		–	–	–
Economic and environmental services		4 109	7 451	12 874	2 366	2 573	2 573	–	4 242	5 687	5 087
Planning and development		11	28	26	–	20	20		–	–	–
Road transport		4 097	7 423	12 848	2 366	2 523	2 523		4 242	5 687	5 087
Environmental protection		–	–	–	–	30	30		–	–	–
Trading services		32 832	32 096	72 717	39 087	38 079	38 079	–	32 203	32 616	37 711
Electricity		14 687	7 050	11 486	5 450	6 920	6 920		11 184	3 788	4 842
Water		9 893	13 183	59 943	21 582	21 900	21 900		7 293	12 691	4 750
Waste water management		6 665	7 220	485	11 455	8 886	8 886		13 426	16 137	28 119
Waste management		1 588	4 643	803	600	372	372		300	–	–
Other		–	–	–	–	–	–		–	–	–
Total Capital Expenditure - Standard	3	71 621	66 092	99 593	68 288	57 733	57 733	–	63 004	74 975	88 510
Funded by:											
National Government		8 030	11 872	62 777	41 311	31 486	31 486		22 523	28 632	40 687
Provincial Government		31 723	19 326	1 850	11 124	5 041	5 041		7 720	21 042	20 565
District Municipality		944	2 565	–	–	200	200		–	–	–
Other transfers and grants		–	429	567	–	1 167	1 167		–	–	–
Transfers recognised - capital	4	40 698	34 193	65 195	52 435	37 894	37 894	–	30 243	49 674	61 252
Public contributions & donations	5	4 796	474	–	–	724	724		–	–	–
Borrowing	6	22 118	29 966	24 948	9 650	11 557	11 557		16 645	13 500	12 500
Internally generated funds		4 008	1 459	9 450	6 203	7 558	7 558		16 116	11 801	14 758
Total Capital Funding	7	71 621	66 092	99 593	68 288	57 733	57 733	–	63 004	74 975	88 510

References

1. Municipalities may choose to appropriate for capital expenditure for three years or for one year (if one year appropriation projected expenditure required for yr2 and yr3).

2. Include capital component of PPP unitary payment. Note that capital transfers are only appropriated to municipalities for the budget year

3. Capital expenditure by standard classification must reconcile to the appropriations by vote

4. Must reconcile to supporting table SA20 and to Budgeted Financial Performance (revenue and expenditure)

5. Must reconcile to Budgeted Financial Performance (revenue and expenditure)

6. Include finance leases and PPP capital funding component of unitary payment - total borrowing/repayments to reconcile to changes in Table SA17

7. Total Capital Funding must balance with Total Capital Expenditure

8. Include any capitalised interest (MFMA section 46) as part of relevant capital budget

Table A6 - Budgeted Financial Position

The following three tables namely A6, A7 and A8 below are probably the most important in this whole document. As a result all comments have been reserved until after table A8 and refer to all three of the tables.

WC048 Knysna - Table A6 Budgeted Financial Position

Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
ASSETS											
Current assets											
Cash		1 324	183	782	192	6 840	6 840		7 577	12 178	21 773
Call investment deposits	1	41 109	60 707	26 182	36 131	19 893	19 893	–	8 048	10 000	20 000
Consumer debtors	1	32 000	47 760	59 540	54 545	50 104	50 104	–	58 558	68 388	79 381
Other debtors		11 021	4 883	15 322	3 453	18 008	18 008		8 500	5 851	5 991
Current portion of long-term receivables		212	121	118	–	65	65		232	43	36
Inventory	2	2 010	2 320	1 685	2 895	1 822	1 822		2 030	2 282	2 589
Total current assets		87 676	115 973	103 629	97 216	96 732	96 732	–	84 945	98 742	129 771
Non current assets											
Long-term receivables		1 011	329	581	279	565	565		500	268	225
Investments		10 484	11 819	13 295	14 802	14 916	14 916		23 043	48 838	73 174
Investment property		115	109	102	95	96	96		89	83	76
Investment in Associate		–	–	–	–	–	–		–	–	–
Property, plant and equipment	3	380 945	419 732	491 353	532 250	517 748	517 748	–	546 939	583 038	618 518
Agricultural		–	–	–	–	–	–		–	–	–
Biological		–	–	–	–	–	–		–	–	–
Intangible		657	411	178	–	27	27		–	–	–
Other non-current assets		5	19	19	19	19	19		25	189	35
Total non current assets		393 216	432 418	505 528	547 446	533 371	533 371	–	570 597	632 416	692 028
TOTAL ASSETS		480 892	548 391	609 157	644 661	630 104	630 104	–	655 541	731 158	821 799
LIABILITIES											
Current liabilities											
Bank overdraft	1	15 690	15 471	10 186	–	–	–		–	–	–
Borrowing	4	13 325	12 166	14 458	15 752	14 726	14 726	–	15 162	16 854	18 736
Consumer deposits		7 944	8 183	8 475	8 400	9 375	9 375		9 795	10 299	10 904
Trade and other payables	4	44 390	50 074	35 736	26 030	29 076	29 076	–	33 244	46 669	58 042
Provisions		8 034	8 960	9 141	10 928	10 175	10 175		12 739	11 687	12 184
Total current liabilities		89 384	94 854	77 995	61 110	63 352	63 352	–	70 940	85 509	99 865
Non current liabilities											
Borrowing		121 840	153 421	155 825	158 378	161 034	161 034	–	158 555	149 733	146 399
Provisions		48 371	53 822	56 858	66 680	63 380	63 380	–	60 273	78 180	87 676
Total non current liabilities		170 211	207 244	212 683	225 058	224 414	224 414	–	218 828	227 913	234 075
TOTAL LIABILITIES		259 595	302 098	290 678	286 168	287 766	287 766	–	289 768	313 422	333 940
NET ASSETS	5	221 298	246 294	318 479	358 493	342 338	342 338	–	365 774	417 736	487 859
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		216 506	241 892	314 059	353 493	336 818	336 818		354 165	382 598	425 580
Reserves	4	4 792	4 402	4 420	5 000	5 520	5 520	–	11 608	35 138	62 278
Minorities' interests		–	–	–	–	–	–		–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	5	221 298	246 294	318 479	358 493	342 338	342 338	–	365 774	417 736	487 859

References

1. Detail to be provided in Table SA3

2. Include completed low cost housing to be transferred to beneficiaries within 12 months

3. Include 'Construction-work-in-progress' (disclosed separately in annual financial statements)

4. Detail to be provided in Table SA3. Includes reserves to be funded by statute.

5. Net assets must balance with Total Community Wealth/Equity

Table A7 - Budgeted Cash Flows

WC048 Knysna - Table A7 Budgeted Cash Flows

Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Ratepayers and other		208 374	244 336	330 326	325 812	320 031	320 031		367 603	415 974	468 921
Government - operating	1	38 681	49 871	21 385	58 320	70 975	70 975		72 552	60 234	65 318
Government - capital	1	40 698	34 193	73 655	52 435	37 390	37 390		30 243	49 674	61 252
Interest		6 226	7 573	1 991	5 012	5 012	5 012		5 073	5 327	5 647
Dividends		–	–	–	–	–	–		–	–	–
Payments											
Suppliers and employees		(238 937)	(266 988)	(367 336)	(342 096)	(348 478)	(348 478)		(369 437)	(394 689)	(441 806)
Finance charges		(15 524)	(17 051)	(17 333)	(22 496)	(19 394)	(19 394)		(20 352)	(19 813)	(18 028)
Transfers and Grants	1	–	–	–	–	–	–		–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		39 519	51 934	42 687	76 988	65 536	65 536	–	85 682	116 707	141 303
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		324	2 520	109	5 000	5 000	5 000		166	166	166
Decrease (Increase) in non-current debtors		–	–	464	–	–	–		–	–	–
Decrease (increase) other non-current receivables		541	220	–	16	16	16		65	232	43
Decrease (increase) in non-current investments		(1 206)	(1 335)	45 872	(1 621)	(1 621)	(1 621)		(8 127)	(25 794)	(29 658)
Payments											
Capital assets		(71 773)	(66 092)	(87 946)	(68 288)	(57 733)	(57 733)		(63 004)	(74 975)	(88 510)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(72 114)	(64 687)	(41 502)	(64 893)	(54 338)	(54 338)	–	(70 900)	(100 371)	(117 959)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		–	–	–	–	–	–		–	–	–
Borrowing long term/refinancing		27 417	44 579	14 960	8 000	18 000	18 000		8 245	4 876	12 500
Increase (decrease) in consumer deposits		587	239	903	200	1 000	1 000		420	504	605
Payments											
Repayment of borrowing		(10 782)	(13 389)	(11 807)	(15 134)	(14 000)	(14 000)		(14 662)	(15 162)	(16 854)
NET CASH FROM/(USED) FINANCING ACTIVITIES		17 222	31 429	4 056	(6 934)	5 000	5 000	–	(5 997)	(9 782)	(3 749)
NET INCREASE/ (DECREASE) IN CASH HELD		(15 373)	18 676	5 242	5 161	16 198	16 198	–	8 785	6 553	19 595
Cash/cash equivalents at the year begin:	2	42 116	26 743	45 419	31 161	(10 058)	(10 058)	(10 058)	6 140	14 925	21 478
Cash/cash equivalents at the year end:	2	26 743	45 419	50 661	36 322	6 140	6 140	(10 058)	14 925	21 478	41 073

References

1. Local/District municipalities to include transfers from/to District/Local Municipalities

2. Cash equivalents includes investments with maturities of 3 months or less

Table A8 - Cash backed reserves/accumulated surplus reconciliation

WC048 Knysna - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Cash and investments available											
Cash/cash equivalents at the year end	1	26 743	45 419	50 661	36 322	6 140	6 140	(10 058)	14 925	21 478	41 073
Other current investments > 90 days		(0)	(0)	(33 883)	0	20 593	20 593	10 058	700	700	700
Non current assets - Investments	1	10 484	11 819	13 295	14 802	14 916	14 916	–	23 043	48 838	73 174
Cash and investments available:		37 227	57 238	30 073	51 124	41 649	41 649	–	38 668	71 016	114 947
Application of cash and investments											
Unspent conditional transfers		24 276	27 395	8 414	1 740	685	685	–	685	685	685
Unspent borrowing		6 512	19 421	10 581	14 248	17 024	17 024		8 624	–	–
Statutory requirements	2	(1 978)	642	–	–	–	–		–	7 936	9 827
Other working capital requirements	3	10 877	3 301	(29 838)	(24 655)	(25 793)	(25 793)	–	(25 647)	(21 053)	(19 696)
Other provisions		8 034	8 960	9 141	10 928	7 356	7 356		12 739	11 687	12 184
Long term investments committed	4	10 224	11 788	13 278	14 802	14 802	14 802	–	16 622	18 667	20 963
Reserves to be backed by cash/investments	5	4 792	4 402	4 420	17 512	11 858	11 858		19 443	43 500	71 865
Total Application of cash and investments:		62 737	75 909	15 996	34 575	25 932	25 932	–	32 467	61 422	95 828
Surplus(shortfall)		(25 510)	(18 671)	14 077	16 549	15 718	15 718	–	6 201	9 594	19 119

References

1. Must reconcile with Budgeted Cash Flows

2. For example: VAT, taxation

3. Council approval for policy required - include sufficient working capital (e.g. allowing for a % of current debtors > 90 days as uncollectable)

4. For example: sinking fund requirements for borrowing

5. Council approval required for each reserve created and basis of cash backing of reserves

The anticipated consumer debtors figure of R58.6 million (table A6) at the end of 2011/12 is the net figure as it includes the bad debt or debt impairment provisions totalling R52.4 million (for more information see 'Supporting Table SA3: Supporting detail to 'Budgeted Financial Position''). As stated last year far more attention needs to be paid to minimising debt at an early stage, that is, before it reaches 90 days. After that point debt recovery, especially on services other than rates or electricity, becomes very problematic.

In the re-drafted Credit Control Policy accompanying this MTREF for Council approval, are a number of specific amendments which have been made to minimise debt including:

- the reduction or discounting of interest charges in full and final settlement of arrears;
- the recovery of arrear rates from the tenant, occupier or agent of a property instead of the owner to an amount equal to the rent payable, as is allowed in the Municipal property Rating Act; and
- the withholding of a municipal employees thirteenth cheque if they are in arrears for more than 90 days.

From a technical perspective our Debt Impairment Provision is now adequate after the doubling of the contribution in the current year.

Council to-date has followed the iron fist in a velvet glove approach to credit control with good success. Unfortunately we can no longer maintain this lighter approach and a stricter enforcement regime has been introduced.

It should be noted that by the end of next year Councils outstanding borrowings will have fallen by R2.4 million from the forecast level of R161 million at the end of this financial year. Once again this demonstrates the implementation of our financial strategy over the last three years and in fact our outstanding borrowings at 30 June 2012 will have risen only 3.3% or by R5.1 million since end June 2009. Table SA8 entitled Performance Indicators confirms the downward trends in both our Gearings and our Debt to Equity ratios.

Perhaps now those commentators that have previously raised concerns about Knysna's finances and financial policies might begin to see the inconsistencies in the arguments they have put forward.

What Table A8 shows is the increase of 80% in our cash backed reserves to R21.4 million by the end of the forthcoming budget from the full year forecast of R11.9 million for the present year. The increase is almost entirely into our Capital Replacement Reserve (CRR) and it is anticipated when the 2013/14 budget is compiled Council should be able to curtail its borrowings entirely if it so wishes.

However a word of caution is required.

In the last two years this Council has followed the dictates of National Treasury in regard to the VAT treatment of grants being recognised as "own revenue" as set out in Budget Circular 48. This was against the wishes of other national and provincial departments who are not quite as in tune with reality on the ground.

The reason we followed this approach was:

a) to mitigate rate and tax payers from the large increases imposed by ESKOM and the water crisis; and
b) to channel moneys towards our CRRs to ensure these would be cash-backed going forward as required by our Funding and Reserves Policy.

In hindsight it was entirely the correct decision as is clear from the increase in payment levels. However, what the tables above indicate is that in

2013/14 there could appear to be almost too much cash floating about. The reason for this is entirely because the tariff increases for ESKOM are still hovering at the 20% plus level and we do not know if and when they will return to some form of normality—unless 20% is now normality. The bottom line therefore is to treat the third year figures with something of a pinch of salt although they do allow for some degree of intelligent internal forward financial planning.

Table A9 - Asset Management

WC048 Knysna - Table A9 Asset Management

Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
CAPITAL EXPENDITURE										
Total New Assets	1	55 913	45 151	65 056	46 768	34 273	34 273	22 709	47 786	66 562
Infrastructure - Road transport		–	–	144	700	1 050	1 050	–	–	–
Infrastructure - Electricity		15 810	3 671	4 182	1 824	3 157	3 157	1 940	1 527	2 134
Infrastructure - Water		4 608	11 380	49 103	19 746	17 852	17 852	3 862	11 542	4 000
Infrastructure - Sanitation		4 024	2 165	360	–	–	–	–	3 435	21 869
Infrastructure - Other		1 303	3 615	4 306	2 266	1 473	1 473	2 242	2 687	1 087
Infrastructure		*25 745*	*20 831*	*58 095*	*24 536*	*23 532*	*23 532*	*8 044*	*19 191*	*29 090*
Community		28 415	20 533	4 932	21 650	9 858	9 858	13 404	28 180	37 022
Other assets	6	1 753	3 772	2 029	582	884	884	1 261	415	450
Intangibles		–	14	–	–	–	–	–	–	–
Total Renewal of Existing Assets	2	15 708	20 941	34 537	21 520	23 460	23 460	40 295	27 189	21 948
Infrastructure - Road transport		1 722	3 915	8 997	150	150	150	2 160	3 170	4 200
Infrastructure - Electricity		–	4 088	9 449	4 650	5 396	5 396	10 745	3 000	4 000
Infrastructure - Water		4 913	1 713	10 585	1 836	3 398	3 398	3 231	1 149	750
Infrastructure - Sanitation		1 516	3 714	–	11 305	8 636	8 636	12 666	12 532	6 050
Infrastructure - Other		6	281	–	–	250	250	–	–	–
Infrastructure		*8 157*	*13 711*	*29 031*	*17 941*	*17 830*	*17 830*	*28 802*	*19 851*	*15 000*
Community		589	2 810	2 035	–	1 070	1 070	2 700	–	–
Other assets	6	6 962	4 420	3 471	3 579	4 559	4 559	8 793	7 338	6 948
Intangibles		–	–	–	–	–	–	–	–	–
Total Capital Expenditure	4									
Infrastructure - Road transport		1 722	3 915	9 141	850	1 200	1 200	2 160	3 170	4 200
Infrastructure - Electricity		15 810	7 759	13 631	6 474	8 553	8 553	12 685	4 527	6 134
Infrastructure - Water		9 521	13 093	59 688	21 582	21 250	21 250	7 093	12 691	4 750
Infrastructure - Sanitation		5 540	5 879	360	11 305	8 636	8 636	12 666	15 967	27 919
Infrastructure - Other		1 310	3 896	4 306	2 266	1 723	1 723	2 242	2 687	1 087
Infrastructure		*33 903*	*34 542*	*87 126*	*42 477*	*41 362*	*41 362*	*36 846*	*39 042*	*44 090*
Community		29 004	23 344	6 967	21 650	10 928	10 928	16 104	28 180	37 022
Other assets		8 714	8 192	5 500	4 161	5 443	5 443	10 054	7 753	7 398
Intangibles		–	14	–	–	–	–	–	–	–
TOTAL CAPITAL EXPENDITURE - Asset class	2	71 621	66 092	99 593	68 288	57 733	57 733	63 004	74 975	88 510
ASSET REGISTER SUMMARY - PPE (WDV)	5									
Infrastructure - Road transport		22 546	23 459	28 630	21 846	22 196	22 196	22 907	24 449	26 425
Infrastructure - Electricity		69 205	72 408	78 034	83 934	84 096	84 096	91 290	89 328	87 337
Infrastructure - Water		73 555	79 720	134 513	148 316	145 984	145 984	143 545	146 033	137 501
Infrastructure - Sanitation		26 921	30 981	29 246	40 552	37 883	37 883	48 076	60 625	83 030
Infrastructure - Other		151 049	169 925	178 138	164 016	163 470	163 470	155 032	146 700	134 443
Infrastructure		*343 276*	*376 494*	*448 561*	*458 665*	*453 630*	*453 630*	*460 850*	*467 135*	*468 736*
Community		16 094	16 893	16 280	50 660	39 938	39 938	53 434	77 816	107 760
Heritage assets		501	594	607	593	593	593	554	515	468
Investment properties		115	109	102	95	96	96	89	83	76
Other assets		21 073	25 751	25 905	22 332	23 587	23 587	32 101	37 572	41 553
Intangibles		657	411	178	–	27	27	–	–	–
TOTAL ASSET REGISTER SUMMARY - PPE (WD	5	381 717	420 251	491 633	532 345	517 871	517 871	547 028	583 121	618 594
EXPENDITURE OTHER ITEMS										
Depreciation & asset impairment		24 277	28 822	30 278	31 344	31 344	31 344	33 807	35 245	36 831
Repairs and Maintenance by Asset Class	3	18 544	18 914	17 157	18 410	19 049	19 049	26 649	28 957	31 571
Infrastructure - Road transport		3 322	3 672	2 683	3 483	3 793	3 793	3 828	3 981	4 121
Infrastructure - Electricity		3 550	4 374	4 440	3 977	4 307	4 307	10 071	11 716	13 727
Infrastructure - Water		3 168	2 704	2 196	2 368	2 469	2 469	2 579	2 682	2 776
Infrastructure - Sanitation		3 441	2 720	2 357	2 099	2 031	2 031	2 152	2 238	2 316
Infrastructure - Other		383	456	248	337	264	264	433	451	466
Infrastructure		*13 863*	*13 926*	*11 924*	*12 264*	*12 864*	*12 864*	*19 063*	*21 068*	*23 407*
Community		1 083	1 058	823	957	986	986	1 041	1 083	1 120
Other assets	6, 7	3 598	3 930	4 410	5 190	5 199	5 199	6 545	6 806	7 044
TOTAL EXPENDITURE OTHER ITEMS		42 821	47 736	47 435	49 754	50 393	50 393	60 456	64 202	68 402
% of capital exp on renewal of assets		*28.1%*	*46.4%*	*53.1%*	*46.0%*	*68.4%*	*68.4%*	*177.4%*	*56.9%*	*33.0%*
Renewal of Existing Assets as % of deprecn"		*64.7%*	*72.7%*	*114.1%*	*68.7%*	*74.8%*	*74.8%*	*119.2%*	*77.1%*	*59.6%*
R&M as a % of PPE		*4.9%*	*4.5%*	*3.5%*	*3.5%*	*3.7%*	*3.7%*	*4.9%*	*5.0%*	*5.1%*
Renewal and R&M as a % of PPE		*9.0%*	*9.0%*	*11.0%*	*8.0%*	*8.0%*	*8.0%*	*12.0%*	*10.0%*	*9.0%*

References

1. Detail of new assets provided in Table SA34a

2. Detail of renewal of existing assets provided in Table SA34b

3. Detail of Repairs and Maintenance by Asset Class provided in Table SA34c

4. Must reconcile to total capital expenditure on Budgeted Capital Expenditure

5. Must reconcile to 'Budgeted Financial Position' (written down value)

6. Donated/contributed and assets funded by finance leases to be allocated to the respective category

7. Including repairs and maintenance to agricultural, biological and intangible assets

Table A10 - Basic service delivery measurement

WC048 Knysna - Table A10 Basic service delivery measurement

Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Household service targets (000)	1									
Water:										
Piped water inside dwelling										
Piped water inside yard (but not in dwelling)										
Using public tap (at least min.service level)	2									
Other water supply (at least min.service level)	4									
Minimum Service Level and Above sub-total		–	–	–	–	–	–	–	–	–
Using public tap (< min.service level)	3									
Other water supply (< min.service level)	4									
No water supply										
Below Minimum Service Level sub-total		–	–	–	–	–	–	–	–	–
Total number of households	5	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:										
Flush toilet (connected to sewerage)										
Flush toilet (with septic tank)										
Chemical toilet										
Pit toilet (ventilated)										
Other toilet provisions (> min.service level)										
Minimum Service Level and Above sub-total		–	–	–	–	–	–	–	–	–
Bucket toilet										
Other toilet provisions (< min.service level)										
No toilet provisions										
Below Minimum Service Level sub-total		–	–	–	–	–	–	–	–	–
Total number of households	5	–	–	–	–	–	–	–	–	–
Energy:										
Electricity (at least min.service level)										
Electricity - prepaid (min.service level)										
Minimum Service Level and Above sub-total		–	–	–	–	–	–	–	–	–
Electricity (< min.service level)										
Electricity - prepaid (< min. service level)										
Other energy sources										
Below Minimum Service Level sub-total		–	–	–	–	–	–	–	–	–
Total number of households	5	–	–	–	–	–	–	–	–	–
Refuse:										
Removed at least once a week										
Minimum Service Level and Above sub-total		–	–	–	–	–	–	–	–	–
Removed less frequently than once a week										
Using communal refuse dump										
Using own refuse dump										
Other rubbish disposal										
No rubbish disposal										
Below Minimum Service Level sub-total		–	–	–	–	–	–	–	–	–
Total number of households	5	–	–	–	–	–	–	–	–	–
Households receiving Free Basic Service	7									
Water (6 kilolitres per household per month)		3	3		4	4	4			
Sanitation (free minimum level service)		2	2		2	2	2			
Electricity/other energy (50kwh per household per mo		6	6		7	7	7			
Refuse (removed at least once a week)		2	2		2	2	2			
Cost of Free Basic Services provided (R'000)	8	–	–		–	–	–			
Water (6 kilolitres per household per month)		4 346	5 344		6 786	6 786	6 786			
Sanitation (free sanitation service)		475	599		837	837	837			
Electricity/other energy (50kwh per household per mo		1 271	1 700		2 783	2 783	2 783			
Refuse (removed once a week)		1 941	2 472		3 563	3 563	3 563			
Total cost of FBS provided (minimum social packa		8 034	10 115	–	13 970	13 970	13 970	–	–	–
Highest level of free service provided										
Property rates (R'000 value threshold)		30	30		30	30	30			
Water (kilolitres per household per month)		8	8		6	6	6			
Sanitation (kilolitres per household per month)		–	–		–	–	–			
Sanitation (Rand per household per month)		70	77		46	46	46			
Electricity (kwh per household per month)		50	50		50	50	50			
Refuse (average litres per week)		170	170		170	170	170			
Revenue cost of free services provided (R'000)	9									
Property rates (R15 000 threshold rebate)		–	–	–	–	–	–	–	–	–
Property rates (other exemptions, reductions and reba		11 643	16 126	18 941	18 288	21 263	21 263	23 211	24 860	26 629
Water		4 000	4 312	5 091	5 069	5 643	5 643	6 030	6 521	7 050
Sanitation		1 250	1 225	763	838	838	838	748	803	855
Electricity/other energy		1 904	2 188	2 322	3 274	3 214	3 214	2 873	3 486	4 196
Refuse		1 280	1 327	897	986	986	986	851	912	971
Municipal Housing - rental rebates		–	–	–	–	–	–	–	–	–
Housing - top structure subsidies	6	5 032	5 223	3 726	4 000	3 981	3 981	4 190	4 358	4 510
Other		–	–	–	–	–	–	–	–	–
Total revenue cost of free services provided (total social package)		25 108	30 400	31 739	32 455	35 925	35 925	37 903	40 940	44 211

References

1. Include services provided by another entity; e.g. Eskom

2. Stand distance <= 200m from dwelling

3. Stand distance > 200m from dwelling

4. Borehole, spring, rain-water tank etc.

5. Must agree to total number of households in municipal area

6. Include value of subsidy provided by municipality above provincial subsidy level

7. Show number of households receiving at least these levels of services completely free

8. Must reflect the cost to the municipality of providing the Free Basic Service

9. Reflect the cost to the municipality in terms of 'revenue foregone' of providing free services (note this will not equal 'Revenue Foregone' on SA1)

PART 2 – SUPPORTING DOCUMENTATION

Section 5 – Overview of annual budget process

Annual planning processes

The CFO has stated in a number of budgets that in an economic downturn coupled with increases in excess of 20% per annum for electricity then the financial elements of the IDP get turned on their head and make the whole IDP and budget process a scarce resource allocation exercise as opposed to a proper planning one.

The operating budget has been driven totally on the premise of cash flow and consumer affordability. Throughout South Africa there are municipalities in financial meltdown because of bad budgeting and by extension bad financial management. A bad budget automatically leads to increased non-payment and pressured cash flows. Throw in an economic downturn compounded by Eskom and the effect of greater than CPI remuneration increases and the probability is the municipality will be in serious financial difficulty very quickly.

Knysna's operating budget for 2011/12 remains fixated on protecting the cash flow and maintaining our payment levels at their current level and this will probably also be the case for 2012/13. We can do nothing about Eskom. The water situation has been turned around for the foreseeable future. There is a new general valuation roll process about to be entered into and this always focuses the public's minds and places a microscope on Councils expenditure plans. These, together with an election, a new Council and a new IDP, mean that this is ultimately a holding budget.

During the course of the year a lot is said that council should zero-base its budget or introduce some variation on a theme. Knysna budgets on a cash basis which means that outside of those expenditures we cannot cut, which include salaries, the bulk Eskom payment and interest and redemption payments, the balance of the budget, which is for repairs and maintenance, stores and materials and other expenditures simply to make the place function, is zero-based. As was also stated earlier, repairs and maintenance have deliberately been prioritised to ensure a higher level of service delivery at the expense of "soft" services.

Budget Process 2011/12

The budget process followed the requirements of the MFMA. A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2010 but because of the election called for May 2011 the dates for tabling the budget and passing the budget had to be brought forward at the request of the National Treasury.

The proposed budget was tabled in Council on 17 March 2011. A period of consultation then followed.

At the culmination of the process the Mayor must consider any representations and decide if any amendments should be made to the budget.

The final budget has to be approved by Council by the end of May 2010.

The Municipality's budget is prepared on a three year basis. This takes into account the National and Provincial three year allocations to the Municipality. The MFMA requires municipalities to prepare three year budgets to ensure more thorough financial planning and provide for seamless service delivery. Additionally the National Treasury Budget Circulars request local government to highlight their projected increases over the next three years to give some certainty to its customers. This is a fine approach but becomes blurred to the point of meaningless when we still have to contend with ESKOM which is coming to the end of its own current tariff increase phase and we are still somewhat in the dark about its future increases.

Operating expenditure in 2011/12 is budgeted at R468.4 million, an 11.1% increase on the original budget for 2010/11, and a 9.9% increase on the adjusted budget for 2010/11.

The municipality sets out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This is done in the form of quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). The plan must be agreed by the Mayor within 28 days of approval of the final budget and forms the basis for the Municipality's in year monitoring.

Section 6 – Overview of alignment of the annual budget with the Integrated Development Plan

Introduction

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the Budget. The IDP and the budget are inter-related documents. The IDP is the budget in words, just as the budget is the IDP in figures. In the past two years comprehensive efforts have been towards ensuring that the two documents are closely link.

Problem Statement

It has been acknowledged that IDPs are still not particularly successful in setting out what is required on the ground. In the Provincial Governments Draft Strategic Plan the following was noted:

> "After more than a decade of municipal integrated development planning, IDPs still include the capital spending priorities of municipalities alone. Furthermore, IDPs do not pay enough attention to the planning priorities and development strategies of provincial departments and relevant national departments. Similarly, national and provincial departments have not done enough to ensure that municipalities' priorities are included in their annual performance plans and budgets.
>
> Separate, uncoordinated planning and budgeting processes and different planning structures and mechanisms have contributed to a lack of integrated planning and delivery at grassroots level. In addition, national and provincial service delivery boundaries have not been fully aligned with municipal boundaries, leading to different sets of information. This often makes it impossible for the three spheres of government to communicate, plan and implement properly. In addition, departments are not organised on a regional basis, so municipalities find themselves communicating with different officials over time on the same issues."

This is also acknowledged by the National Treasury who have embarked on creating a Standard Chart of Accounts (SCOA) for all municipalities which will have as an integral part, a section entitled "Projects" that allows for more meaningful financial reporting on the key programmes and projects intrinsic to the IDP. Knysna is proud to have been recognised in that it can contribute to this project and we are one of five pilot sites for implementation which is scheduled for completion by 2014. In the interim the present IDP process will muddle along but it should be noted that this budget represents the last year of the current IDP and is therefore a

holding IDP prior to the elections being held and new planning processes begun.

Knysna's vision: The town that works for all

The Knysna Municipality has a vision which drives the Integrated Development Plan namely that of "The town that works for all".

Our greatest challenge has been to build our own absorptive capacity in order to ensure that such growth translates into economic development of the town. Critical to this is ensuring that the town has adequate infrastructure. The infrastructure investment requirements far outstrip our available income. The challenge has been to find innovative funding options for financing capital needs.

All of these challenges are compounding on an already existing problem of disparity between the affluent communities of Knysna and our historically disadvantaged ones. The National Treasury has seen fit to award Knysna some R120 million via the Neighbourhood Partnership Development Grant (NDPG) and there is the possibility of us receiving more money if we are seen to be developing our poorer areas optimally. This grant must be seen as the catalyst and driver in the forthcoming years to move Knysna to a higher level of development and economic growth. Without this stimulus the probability is that Knysna will decay economically with all the attendant recessionary problems that follow. This also drives us to ensure that we consolidate our relationships with the private sector, hence our fullest support of the Knysna Chamber of Commerce. National and Provincial Governments should also prove to be valuable partners. Knysna's human capital wealth must also be harnessed.

Key challenges facing Knysna

Knysna Municipality is faced with a complex set of development challenges; their outlook is consistent with the broader challenges facing local government albeit with some peculiarities:

i. Sustainable Infrastructure Investment

The continued growth of the town has put a lot of pressure on infrastructure. That growth—which cannot simply be stopped—will continue at a rate which the Municipality struggles to match financially.

ii. Focused development of the previously disadvantaged

The poorest communities in our areas are subjected to the worst living conditions and the Municipality has committed itself towards poverty alleviation. Programmes with clear funding intentions are being designed for that purpose. The Neighbourhood Revitalisation Programme is the desired response to this problem.

iii. Integrated Human Settlement

The provision of housing settlements with a strong emphasis on sustainability is an important issue for Knysna Municipality. Within the context of a composite set of development needs of the previously disadvantaged, the Municipality will address the need for housing, as far as it financially can.

Although some of the obstacles regarding successful housing provision are not necessarily within the control of the municipality i.e. access to land, the challenge still remains for Council to devise creative strategies to deal with this matter. In line with that the Council has engaged with the other spheres of government i.e. DWAF & Department of Public Works. The Integrated Human Settlement strategy will pave the way for future housing provision in the Knysna area provided the strategy remains affordable to the Knysna tax and tariff paying community

iv. The challenge of promoting Local Economic Development

The need for the diversification of the local economy through facilitating the emergence of previously underperforming sectors is an important catalyst for economic development. Our Local Economic Development strategy focuses on mainstreaming the previously disadvantaged people. Crucial to this is the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs.

v. The challenge of ensuring municipal financial viability

A municipality lives and dies by its ability to balance needs with resources. Knysna Municipality cannot generate sufficient resources to properly satisfy all its needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner. Promises of quick and easy solutions are simply lies.

vi. The challenge of municipal transformation and institutional development

Staff development is crucial to meet the challenges of Knysna and the new ethos of local government. The Employment Equity imperatives have to be assessed continually to ensure that Knysna Municipality's transformation remains in line with the broader transformation agenda of South Africa. Included in this must be an accelerated emphasis on growing and developing our own timber. Knysna does not have the luxury of competing in terms of salary and therefore our ability to attract qualified and quality staff is severely limited. We must therefore develop from within.

vii. Public Participation

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Knysna Municipality is challenged to ensure that it continues to build on its successes over the last few years.

Section 7 – Measurable performance objectives and indicators

Indicators and ratios

The key financial indicators and ratios mentioned below are disclosed in Annexure 2, 'Supporting Table SA8: Performance indicators and benchmarks':

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

Funding measure ratios are disclosed in Annexure 2 'Supporting Table SA10: Funding measurement'.

Drinking water quality and waste water management

Due to concerns surrounding the quality of municipal drinking water and failures in the management of waste water, National Treasury requires that the following section is included in the 2011/12 budget document.

i. **Water Services Authority & Water Services Provider:**

Knysna Municipality

Blue Drop Status

From the Blue Drop Report for 2010 of the South African Drinking Water Authority Management Performance undertaken by the Development of Water Affairs the following statement is made:

"Knysna Local Municipality once again impressed during the Blue Drop assessments; reasonably high scores were obtained which is indicative of commitment levels to drinking water quality management. A well deserved Blue Drop Certification was obtained for the water supply system of Karatara.

All the systems have in place what is required to manage according to the Blue Drop requirements, however acceptable instead of excellent microbiological water quality is generally distributed. Chemical quality also requires attention. Once this has been dealt with, more Blue Drop systems can be expected".

With eight discrete monitoring points Knysna's systems are very complex and the results were good with Karatara Water Treatment Works being awarded Blue Drop Status.

ii. Green Drop Status

From the Green Drop 2009 assessments of the Department of Water Affairs the following result was received.

"The Green Drop 2009 assessments revealed an acceptable level of management ability and delivery of a reasonable to good waste water services performance, as is evident by your Green Drop scores achieving an average of between 50% and 90%. This score places your Municipality within the 203 (45%) waste water services systems that achieved scores above 50%".

More up to date assessments are expected shortly.

iii. Water Safety Plan

The Water Safety Plan was implemented with the assessments from 2010 and the shortfalls are addressed in the operational requirements of the MTREF. Where capacity issues are of concern the challenges remain the capacity funding of major projects. Knysna Waste Water Treatment Works is being addressed in the 3 year capital program and additional funding is being sought for other areas.

iv. Challenges

The challenges, as mentioned, are for capital funding to provide additional capacity for bulk water and sewer services to meet the growth of the various towns. Grant funding is currently used and additional grant funding is being applied for, however an extended period is envisaged to fund all constraints to growth resulting from the water and waste water services. Human Resources also are a challenge and need to be addressed within the operational budget with provisions for additional staff.

Section 8 – Overview of budget related policies

The detailed policies themselves are not included in this section of the budget documentation.

See Annexure 6 to this document for the full policies.

Policies are also available at the Council offices in Clyde Street for viewing as well as on the Internet at www.knysna.gov.za. This section gives a **broad overview** of the budget policy framework and highlights the amended policies to be approved by Council resolution.

Name of Policy	**Type**	**Date of Council adoption** (if already done)	**Purpose / Basic areas covered by Policy**	**Summary of changes**	**Responsible Manager**
REVENUE RELATED					
Tariff	Unchanged	20 April 2011	Setting criteria for establishing service tariffs	n/a	Lorienne McCartney
Rates	Unchanged	20 April 2011	Setting criteria for establishing rates tariffs	n/a	Lorienne McCartney
Credit control	Amended	20 April 2011	Principles and guidelines to be followed with respect to arrear consumer debt control	Consolidation of accounts in arrears and waiving of interest in certain circumstances	William Fillies
Indigent support & social rebate	Unchanged	20 April 2011	Guidelines and procedures for the subsidization of rates and basic services to indigent households	n/a	William Fillies
BUDGET AND EXPENDITURE RELATED					
Liability, investment & cash management	Unchanged	20 April 2011	Guideline of procedures to be followed when investing or lending money	n/a	Lorienne McCartney
Virement	Unchanged	20 April 2011	Sets out guidelines and procedures to be followed when transferring budget savings between votes	n/a	Lorienne McCartney
Supply chain management	Amended	20 April 2011	Dictates procedures for the procurement of goods and services	n/a	Marie Brand
Funding and reserves policy	Unchanged	20 April 2011	Sets standards and guidelines for financial viability	n/a	Lorienne McCartney

Section 9 – Overview of budget assumptions

Introduction

Knysna's financial system operates on the big wheel, little wheel principle, the same as virtually every other local authority outside the metros. What this means is that the middle to upper income groupings are billed for the vast majority of Council services. In the municipality the established areas take up 94% of debits raised as against 6% in the previously disadvantaged areas. In an economic downturn the effect of high tariffs and rates on the middle and low income groups is dramatic. This is clearly reflected in the number of new arrangements made by debtors from these groupings. As stated earlier Greater Knysna is a domestic based municipality with limited non-domestic resources. The non-domestic sector, of which 50% is tourist related, contributes 25% of total rates and tariff revenue which is simply not enough to be sustainable with all the demands currently being placed on our expenditure.

Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. This section provides a comprehensive summary of the assumptions used in preparing the budget.

The budget is premised on a 96% payment level. This level is being consistently achieved and has remained relatively constant for the last two months and payment levels in the last four months of the year are invariably higher. It is therefore a reasonable measure to use. The table below shows our payment levels at end February 2011.

Month / Year	Actual	Accrued	12 Month Total Actual	12 Month Total Accrued	Payment Level						12 Month Increase	
					Current Year	Previous Years						
						2009/ 2010	2008/ 2009	2007/ 2008	2006/ 2007	2005/ 2006	Cash	Accrued
Mar-10	(22,580,066)	14,670,815	(276,251,664.65)	298,653,799.97	92%	92%	98%	99%	96%		16.1%	15.8%
Apr-10	(22,459,762)	15,580,499	(280,053,754.18)	303,190,156.00	92%	93%	99%	100%	95%		15.3%	16.2%
May-10	(21,400,158)	11,826,254	(284,309,029.44)	301,739,292.20	94%	93%	100%	99%	98%		15.6%	14.3%
Jun-10	(19,637,956)	11,367,592	(287,806,391.89)	303,700,690.60	95%	94%	99%	98%	98%	101%	16.5%	15.4%
Jul-10	(21,591,194)	175,777,097	(290,896,515.88)	320,520,724.13	91%	90%	84%	95%	95%	96%	15.9%	15.6%
Aug-10	(30,972,647)	12,542,536	(299,132,131.11)	321,663,036.23	93%	89%	83%	97%	97%	96%	17.8%	14.5%
Sep-10	(45,259,034)	13,906,373	(297,460,755.10)	322,963,567.93	92%	93%	84%	98%	96%	98%	12.6%	13.8%
Oct-10	(30,815,273)	16,819,834	(300,232,448.26)	327,217,331.62	92%	92%	87%	98%	99%	97%	13.1%	13.7%
Nov-10	(30,746,988)	17,197,223	(306,651,915.14)	333,087,770.76	92%	92%	89%	99%	97%	98%	13.5%	13.9%
Dec-10	(23,371,393)	9,279,248	(310,341,384.06)	331,871,019.68	94%	93%	90%	100%	96%	98%	14.1%	13.7%
Jan-11	(24,925,097)	17,771,915	(315,635,373.60)	328,337,560.14	96%	91%	92%	98%	98%	98%	15.2%	10.1%
Feb-11	(23,966,122)	12,621,373	(317,725,691.09)	329,360,758.77	96%	92%	92%	98%	99%	97%	14.5%	10.2%

__External factors__ (population migration, employment, etc)

Over recent years Knysna has experienced rapid population growth. This must be seen against the backdrop of developable land, a sensitive environment and the lack of new jobs being created in the local economy. This presents a serious challenge to Council to improve the efficiency of its urban systems. The unique and sensitive environment of Greater Knysna is under pressure and Council has to manage the growth demands of the economy very rigidly to ensure environmental sustainability.

There remains a paucity of up to-date economic data available for the municipal area. Council in conjunction with the local Chamber of Business and the Nelson Mandela University has embarked on an economic survey. At best all we can surmise at present is that the population is growing faster than the previous indicators of 4% per annum with concomitant service delivery and unemployment demands.

Growth or decline in tax base of the municipality

The buoyancy of the tax base is the main determinant of the affordability of new infrastructure development. Long term financial modelling shows a financial shortfall of R 1.1 billion in the resources required for infrastructure development over the next 15 years.

The following assumptions about future growth in the tax base are included in the MTREF:

	2011/12	**2012/13**	**2013/14**
Growth in tax base- Rates	1.5%	4%	2.5%
User Charges (%)	0%	1.0%	1.5%

General inflation outlook and its impact on the municipal activities

The headline CPI forecasts for 2011/12, 2012/13 and 2013/14 are 4.8%, 5.3% and 5.5% respectively. The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies. National Treasury have announced that local increases must be in line with the CPI forecasts after taking into account the national salary award (4.08 plus 2% for the forthcoming budget year) and that any increases above the forecast must be fully communicated to the community.

Rates, tariffs, charges and timing of revenue collection

The rates, tariffs and charges for the 2011/12 budget are included in Annexure 3.

The following table shows the assumed average *domestic* percentage increases built into the MTREF for rates, tariffs and charges:

	2011/12	**2012/13**	**2013/14**
Rates	5.5%	5.0%	5.0%
Annual fixed charges – refuse	5.5%	5.0%	4.5%
Annual fixed charges – sewer	3.5%	5.0%	4.5%
Water –fixed and consumption charges	3.5%	6%	6%
Electricity – monthly consumption tariff * *Average proposed increase*	*17%	*19%	*18%

Collection rates for each revenue source and customer type

The Municipality has in place a fair but rigorous credit control policy and has a good record of debt recovery. Furthermore, its policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt.

Nevertheless, there will always be an element of the total amount billed that will remain uncollected. The Municipality is the same as any other business in this regard. Adequate provision has to be made in the budget for any bad debts based on assumptions on collection rates.

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

R '000	2011/12	2012/13	2013/14
Provision for bad and doubtful debts Table A4: Debt impairment	15 395	14 733	16 639
Assumed collection rate (%) Supporting Table SA10: Cash receipts% of Ratepayer and other revenue	94.8%	95.6%	94.9%

Price movements on specific items

The following amounts are included in the MTREF for increases in the following items:

R '000	2011/12	2012/13	2013/14
Eskom Table A4: Bulk purchases	109 455	137 914	173 772

More detail relating to specific items can be found in Annexure 2, 'Supporting Table SA1: Supporting detail to 'Budgeted Financial Performance''.

Trends in demand for free or subsidised basic services

Knysna's criteria for supporting free or subsidised basic services are set out in the indigent support and social rebate policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of the Equitable Share Grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the Equitable Share allocation are met by the Municipality.

The following table summarises information as contained in Annexure 1, 'Table A10: Basic service delivery measurement' and shows the assumed cost of the indigent support and social rebate policy over the MTREF and the amounts allocated to the Municipality through the DORA. The two outer years DORA allocations are indicative.

R'000	2011/12	2012/13	2013/14
Extras provided by Council	11 216	11 214	12 516
Revenue cost of free services and all other rebates provided	37 903	40 940	44 211
Equitable share	26 687	29 726	31 695
Utilised for free services	*21 771*	*24 306*	*25 924*
Institutional support	*3 773*	*4 213*	*4 494*
Contribution to Councillors allowances	*1 143*	*1 207*	*1 277*

Section 10 – Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Section 4, 'Table A8: Cash backed reserves/accumulated surplus reconciliation' and Annexure 2, 'Supporting Table SA10: Funding measurement'.

Fiscal Overview of Knysna Municipality

Knysna Municipality has over recent years moved to a position of relative financial stability. Our financial reserves are becoming meaningful, there is a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management and recently National Treasury itself commented that Knysna "is the only municipality in the Western Cape that reconciles" when comparing our budget returns with the audited financial statements.

For the fourth time in five years the municipality received an unqualified audit report from the Auditor-General and in the other year it was only very technical qualifications that caused the A-G issues. The switch over to GRAP has had huge ramifications not least amongst the professional staffing at the local government level. Knysna municipality cannot afford the salaries that are a prerequisite to GRAP. There is already a dearth of qualified accountants in South Africa and the complexities that are GRAP in local government are

such that outside of the metropolitan areas it is highly unlikely that qualified accountants are going to come and work at the salaries we offer. Until it is acknowledged that there is actually a world that exists outside of the metropoles and a salary structure worked out accordingly, then we will continue to muddle through as best we can.

Long term financial planning

Knysna has a credit rating of Baa2 and a Baseline Credit Assessment of 12 which was given in 2009 and subsequently confirmed in 2010. The assessment stated… "the BCA of 12 reflects a narrow but growing local economic base that is largely dependent upon tourism. The moderate growth of Knysna over the last few years, coupled with the migration of people to the area, has increased the service delivery challenges for the municipality. Financial management and budget planning is sound, but it has to managed within narrow financial parameters given the challenges and limited financial resources. The planned increase in Knysna's debt burden to fund the budgeted capital expenditure is expected to remain high over the medium term and will increase the risk profile of the municipality".

What that is saying is that we are not doing badly given our circumstances but don't try to get clever.

Section 11 – Expenditure on allocations and grant programmes

Disclosure on expenditure on allocations and grant programmes is done by way of Annexure 2, "Supporting Table SA18: Transfers and grant receipts, Supporting Table SA19: Expenditure on transfers and grant programme and Supporting Table SA20: Reconciliation of transfers, grant receipts and unspent funds".

Expenditure for each grant for 2011/12 to 2013/14 is summarised in the table below. Note that the expenditures include the VAT portion that is recognised as expenditure on grant allocations per MFMA Circular 48 and where two amounts are shown the first is for operating expenditure and the second for capital expenditure.

National and Provincial Conditional Grant Allocations 2011/12 to 2013/14					
Name of Grant	**Allocating Authority / Department**	**Budget 2011/12 R'000**	**Indicative 2012/13 R'000**	**Indicative 2013/14 R'000**	**Purpose of the Grant**
Integrated housing and human settlement development grant	Province/ Local Government and Housing	37 053 7 018	23 651 18 478	24 931 19 478	To finance the funding requirements of national housing programmes (excluding recurrent costs recoverable from assets falling under the pre-1994 stock). To facilitate the establishment and maintenance of integrated and sustainable human settlements to ensure economically viable and socially equitable communities in areas with ecological integrity.
Library Services	Province/ Cultural Affairs and Sport	538	0	0	To enable public libraries to render an improved service by addressing staffing shortages.
Community Development Worker	Province/ Local Government and Housing	52	54	56	To provide financial assistance to municipalities to cover the operating costs pertaining to the functions of the CDW's

Name of Grant	**Allocating Authority / Department**	**Budget 2011/12 R'000**	**Indicative 2012/13 R'000**	**Indicative 2013/14 R'000**	**Purpose of the Grant**
Maintenance of Proclaimed Roads	Province/ Transport and Public Works	32			To provide routine maintenance and/or resealing on proclaimed roads (National Roads)
Local Government Financial Management Grant (FMG)	National / National Treasury	1 250	1 250	1 250	To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.
Municipal Systems Improvement Programme Grant (MSIG)	National / Provincial and Local Government	790	800	900	To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.
Municipal Infrastructure Grant (MIG)	National / Provincial and Local Government (National Vote 29)	2 936 16 997	3 499 20 737	3 700 21 869	To supplement capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions. The operating portion is utilised for the Project Management Unit.
Integrated National Electrification Programme (INEP)	National / Minerals and Energy (National Vote 28)	160 1 140	123 877	178 1 274	To implement the Programme by providing capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Name of Grant	Allocating Authority / Department	Budget 2011/12 R'000	Indicative 2012/13 R'000	Indicative 201314 R'000	Purpose of the Grant
Neighbourhood Development Partnership Grant	National/ National Treasury	614 4 386	982 7 018	2 456 17 544	To improve the quality of life to residents in township areas
Public Transport Infrastructure	Province/ Transport and Public Works	98 702	149 1 064	152 1 087	To improve transport facilities
Thusong Centre	Province/ Local Government and Housing		1 500		To form a hub of government services
Equitable Share	National / Provincial and Local Government	26 687	29 726	31 695	

Section 12 – Allocations and grants made by the Municipality

Allocations Made by the Municipality

Refer to Annexure 2, 'Supporting Table SA21: Transfers and grants made by the municipality'. The main allocation is to Knysna Tourism which is budgeted to receive R 4 495 000 in 2011/12.

It is noted that no allocation is shown in this section of the municipality's contribution to KEDA either in terms of our own contribution or of the grant given by the IDC and passed through our books. This is the classic reason why operating an entity of this nature is an administrative nightmare. The contribution given by Knysna has to be included in the budget as a debt impairment. When financial statements are compiled by both bodies and consolidated in the final set of accounts, the impairments will be contra'd out and a share capital will be reflected showing the extent of the municipality's "contribution". In laymans terms and for easy reference Knysna Municipality will be contributing R428 695 of its own money and the IDC will contribute, via the municipality, R2 341 555.

Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

In MFMA Circular 51 page 18, National Treasury has distinguished between revenue foregone and grant expenditures as they relate to the type of rebates given.

The revenue foregone over the MTREF is included in 'Table A10: Basic service delivery measurement' and is summarised below:

Revenue cost of rebates given	**Budget 2011/12 R'000**	**Indicative 2012/13 R'000**	**Indicative 2013/14 R'000**
Property rates	23 211	24 860	26 629
Water	6 030	6 521	7 050
Sanitation	776	830	884
Electricity	2 873	3 486	4 196
Refuse	851	912	971

Section 13 – Councillor allowances and employee benefits

Refer to Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits' and 'Supporting Table SA23: Salaries, allowances & benefits (political office bearers/councillors/senior managers)' for further details.

The salary increase for 2011/12 for managers and staff is budgeted at 9.5% resulting in a total cost of R142.5 million. It represents increases of 21.5% on the final forecast of 2010/11 because of the additions to management and 11.5% from the final forecast in respect of other staff. Excluded from this is the increase for Councillors of 35.5% which represents the three new Councillors of whom two are eligible for Mayoral Committee positions.

Council has deliberately budgeted to freeze certain vacancies for a period of three months until 1 October 2012 and this may be extended if circumstances dictate.

At this point there is no final clarity on the wage award. Any changes to the budget in this regard will be tabled before Council for approval as part of the Adjustments Budget in February 2012.

Section 14 – Monthly targets for revenue, expenditure and cash flow

Disclosure on monthly targets for revenue, expenditure and cash flow is made in Annexure 2 in the following Supporting Tables:

Monthly operating budget revenue and expenditure projections

'Supporting Table SA25: Budgeted monthly revenue and expenditure' reflects consolidated projections of revenue by source and expenditure by type for the budget year broken down per month for the budget year, and shown in total for the following two years.

'Supporting Table SA26: Budgeted monthly revenue and expenditure (municipal vote)' and 'Supporting Table SA27: Budgeted monthly revenue and expenditure (standard classification)' reflects revenue and expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly capital budget revenue and expenditure projections

'Supporting Table SA28: Budgeted monthly capital expenditure (municipal vote)' and 'Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)' show capital expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly cash flow projections

'Supporting Table SA30: Budgeted monthly cash flow' sets out receipts by source and payments by type for both operating and capital, broken down per month for the budget year, and shown in total for the following two years.

Budgeted household accounts

'Supporting Table SA14: Household bills' compiles the data for the monthly budgeted account for household income analysis, per small and large household.

Property Rates information

'Supporting Table SA11: Property rates summary' contains the Property Rates summary with all statistic data.

'Supporting Tables SA12 and SA13: Property rates by category (current) and (budget year)' reflect the current and budgeted year's expected data for Property rates by category.

Section 15 – Annual budgets and service delivery and budget implementation plans – internal departments

Adoption of the Service Delivery and Budget Implementation Plan

In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

Contents of the SDBIP

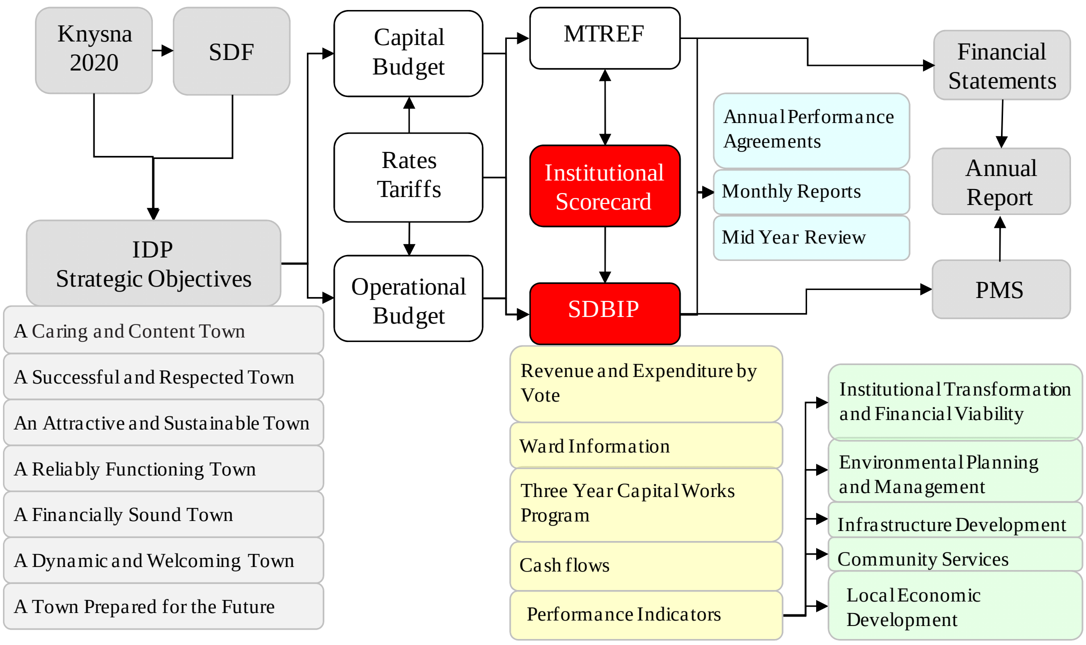
The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

Some annual targets are still to be confirmed. These will be included in the final budget documentation and SDBIP.

SDBIP requirements

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between the strategic plan, IDP, budget and management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators. The schematic below sets out its importance in the municipal reporting cycle.

SDBIP Placement



National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Transformation and Financial Viability
2. Environmental Planning and Management
3. Infrastructure Development
4. Community Services
5. Local Economic Development

In addition Local Government Turnaround Strategy (LGTAS) has identified six key thematic problem areas that need to be addressed in varying degrees by municipalities:

1. Service delivery
2. Spatial conditions
3. Governance
4. Financial Management
5. Local Economic Development
6. Labour Relations

Way forward

The existing and proposed performance indicators for 2011/2012 will be reviewed during the last quarter of the 2010/2011 SDBIP cycle and any amendments will be included in the SDBIP for the Mayor's approval.

Institutional Scorecard

The Institutional Scorecard is a synopsis of the planned SDBIP for the medium term 2011/2012 to 2013/2014. The scorecard has been aligned with National KPA and the Municipal KPA (IDP strategic objectives). This will form the basis of the Directors performance agreement scorecards as well as the basis for departmental performance indicators.

Refer to Annexure 8 for the detailed Top Level Institutional Scorecard.

Section 16 – Annual budgets and service delivery agreements – municipal entities and other external mechanisms

Refer to Annexure 2, 'Supporting Table SA32: List of external mechanisms'. Council currently has only one service delivery agreement of this nature in place at the present. This agreement is with Knysna Tourism to provide the tourism function. Details of the allocation are included in Section 12.

The other external mechanism that is the Knysna Economic Development Agency (KEDA) is also covered in Section 12 above.

Section 17 – Contracts having future budgetary implications

'Supporting Table SA33: Contracts having future budgetary implications' in Annexure 2 discloses all contracts which will impose financial obligations on the municipality beyond the three years covered in the annual budget.

Since Knysna falls into the category of municipalities with approved total revenue greater than R250 million, all contracts with an annual cost greater than R1 million and for longer than three years must be disclosed.

Rental: Melville Development (Customer Centre):

Year	2010/11	2011/12	2012/13	2013/14	2014/15
R 000	1 451	1 545	1 645	1 752	1 866

*Contract commenced 2006/07

Section 18 – Capital expenditure details

Capital details are shown in Annexure 2:

- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget (capital expenditure)'
- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'
- 'Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class'
- 'Supporting Table SA34c: Repairs and maintenance expenditure by asset class'
- 'Supporting Table SA36: Detailed capital budget'

The budget for 2011/12 of R63 million is very much on a par with that of last year and is in line with our financial plan. The majority of the capital budget remains for bulk infrastructure (57.8%), new housing (14.2%) and community services (5.5%).

Projects delayed from previous years

A list of capital programmes or projects delayed from previous financial years is shown in Annexure 2, 'Supporting Table SA37: Projects delayed from previous financial year/s'.

Historical actual capital spend versus budget

The following table shows the trend of spending against budget for the capital programme since 2005/06:

R '000	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 projected
Capital Budget (adjusted)	78 651	81 518	104 796	78 417	110 844	57 733
Actual Spending	65 529	73 001	71 746	66 092	99 593	51 408
%	83	90	68	84	88	89

The above table shows a number of points for noting.

1) The steady increase in the capital budget which directly reflects the growth of the town over the period to end 2008. Council capital expenditure generally works on a two year lag to the economy of the town;
2) The cutback in capital expenditure from 2008/09 as a response to the high gearing and because of the economic downturn which was just

beginning. The figures for 2009/10 are slightly misleading for trend purposes because of the water issues;

3) The percentage spend to budget ratio which is generally acceptable at the 88-89% levels achieved in the last two years.

Section 19 – Legislation compliance status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Knysna has been designated as a medium capacity municipality.

The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing. Knysna was designated as a pilot municipality for the reforms and is engaged in a partnership arrangement with National Treasury.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

<u>The budget preparation process</u>

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

<u>Overview</u>

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must consider the approval of the budget by 1 June and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. The various tables detailed in Section 4 and those additionally attached comply with the disclosure requirements.

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

<u>The Division of Revenue Act 2010 and Provincial Budget Announcements</u>

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

<u>The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003</u>

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

Section 20 - Other supporting documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

Annexure 1 – Main Budget Tables

Tables A1 to A10

Annexure 2 – Supporting Budget Tables

Supporting Tables SA1 to SA37

Annexure 3 – Tariffs, Charges and Fees for 2011/2012

The average increases for 2011/2012 are:

Service	Domestic	Non-domestic
Assessment Rates	5.5%	6%
Refuse	5%	6%
Sanitation	3.5%	5%
Water	3.5%	2.5% (consumption) 5% (fixed charges)
Electricity	*17% on average	*25% on average
** See tariff schedule for full detail*		

Annexure 4

Municipal Budget Circular for the 2011/12 MTREF - MFMA Circulars 54

Annexure 5

Municipal Budget Circular for the 2011/12 MTREF - MFMA Circulars 55

Annexure 6 - Policies

- Property rates
- Credit control
- Indigent & rebate
- Tariff
- Virement
- Cash management
- Funding and reserves
- Supply chain management

Annexure 7

Mayor’s report on submissions received on the 2011/12 budget (only for final)

Annexure 8

Top Level Institutional Scorecard

Section 21 – Municipal manager's quality certification

An annual budget and supporting documentation must be covered by a quality certificate in the format as per page 68 of the Government Gazette 32141 - 17 April 2009.

QUALITY CERTIFICATE

I, Johnny B. Douglas, municipal manager of Knysna Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name ____

Municipal Manager of Knysna Municipality (WC048)

Signature ____

Date __________________